

City of Edmonton
Office of the City Auditor

**Report on Self-Assessment of
the Office of the City Auditor
Independent Validation by
Kingston Ross Parnak, LLP**

May 21, 2020



1200, Scotia Place, Tower 1
10060 Jasper Avenue
Edmonton, AB T5J 3R8
Phone: 780-496-8300
edmonton.ca/auditor

Report Highlights

Summary.....	2
Comparison to Industry Best Practice	5
Successful Internal Audit Practices	7
Opportunities for Continuous Improvement	9
Recommendation	10
Methodology	11
Appendix A – Evaluation Summary and Rating Definitions..	12
Appendix B – Independent Validation Statement	16

Objectives

The objective of the quality assessment was to assess the Office of the City Auditor’s (OCA) conformance with the *International Standards for the Professional Practice of Internal Auditing (Standards)* and the Code of Ethics.

The OCA also evaluated its effectiveness in carrying out its mandate (as set forth in the City Auditor Bylaw); identified successful internal audit practices; and identified opportunities for continuous improvement to enhance the efficiency and effectiveness of the office.

Independent Validation

Kingston Ross Pasnak, LLP, an external independent assessor, validated the results of the OCA’s self-assessment. Their main focus was to validate the conclusion of the OCA related to conformance with the Standards and the Code of Ethics. They also reviewed the OCA’s observations related to successful internal audit practices and opportunities for continuous improvement and offered additional observations as they deemed appropriate.

Scope

The scope of the quality assessment included the activities of the OCA, as set forth in the City Auditor Bylaw, which defines the purpose, authority, and responsibility of the OCA and is approved by the City Council.

The quality assessment was concluded on April 30, 2020 and provides City Council with information about the OCA as of that date.

The Standards and the Code of Ethics in place and effective as of January 1, 2020, were the basis for the quality assessment.

Summary

The International Standards for the Professional Practice of Internal Auditing (Standards) 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.

Upon consultation and agreement by the Audit Committee, the Office of the City Auditor (OCA) conducted a self-assessment of its internal audit activity and selected Kingston Ross Pasnak LLP (KRP) as the qualified, independent external assessment team to conduct a validation of the self-assessment of the OCA.

OCA Background Info

The OCA receives its purpose, authority, and responsibility from the City Auditor Bylaw. The Bylaw establishes the OCA within the organization, including the nature of the City Auditor's functional reporting relationship with Council; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. The City Auditor Bylaw also provides the Office with the organizational independence we require to fulfill our responsibilities. Council last approved the Bylaw in June 2006; however, the City Auditor reviews it annually to ensure it remains in compliance with the Standards.

The OCA has 16 employees: the City Auditor, 2 Deputy City Auditors, 2 Senior Audit Coordinators, 10 Audit Coordinators, and a Strategic Coordinator. In 2019 its budget was \$2.5 million (or 0.09% of the total budget for the City of Edmonton).

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

It is our overall opinion that the OCA **generally conforms** with the Standards and the Code of Ethics.

Generally conforms is the highest possible rating and 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.

A detailed list of conformance with individual standards and the Code of Ethics is shown in Appendix A.

Successful Internal Audit Practices

We identified areas where we feel we are operating in a particularly effective or efficient manner. Successful internal audit practices identified are related to the following Standards:

Independence and Objectivity

- Standard 1100 – Independence and Objectivity – The City Auditor has direct and unrestricted access to senior management and the board.
- Standard 1110 – Organizational Independence – The City Auditor reports directly to City Council and not through Administration.
- Standard 1120 – Individual Objectivity – Each auditor must sign an Auditor Independence Confirmation for each project and inform the City Auditor of any potential conflicts of interest.

Internal Assessments

- Standard 1311 – Internal Assessments – Ongoing monitoring is an integral part of the day-to-day supervision, review, and measurement of the OCA's activity.

Policies and Procedures

- Standard 2040 – Policies and Procedures – The OCA has comprehensive guidelines that ensure the Standards are followed. We have built these into a template in our electronic working papers program to ensure all steps are followed when completing audits.

Opportunities for Continuous Improvement

We also found opportunities to enhance the efficiency or effectiveness of our processes. This item does not indicate a lack of conformance with the Standards or the Code of Ethics, but rather offers suggestions on how to better align with criteria defined in the Standards or Code of Ethics.

The opportunities for continuous improvement identified relate to the following Standards:

Performance Measurement Framework

- Standard 1300 – Quality Assurance and Improvement Program – Implementation of a formal Performance Measurement Framework to evaluate the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement.

Dealing with Emerging Issues

- Standard 2010 – Planning – Updating our Annual Planning Guideline to explain the process we use to review and adjust our annual work plan as necessary, in response to changes in the organization’s business, risks, operations, programs, systems, and controls.

Comparison to Industry Best Practice

We compared ourselves to the **Association of Local Government Auditors (ALGA) 2018 Benchmarking, Best Practice, and Salary Survey**. These are the latest benchmarking results published by ALGA.

ALGA is made up of more than 300 organizations including audit shops from cities, counties, utility districts, transit agencies, tribal governments and more across Canada and United States.

Recommendations Accepted

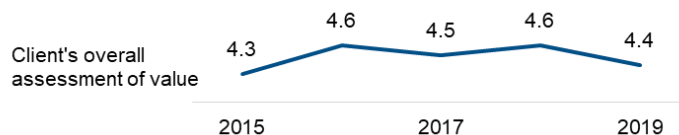
Administration accepted 100% of our recommendations in 2019. The industry average is 83%.



Client Satisfaction

After each major project, we issue a customer satisfaction survey to obtain feedback on our performance and to identify areas where we can improve our operations. Audit clients score our performance on a scale of 1 to 5.

In 2019 our clients assessment our overall value as 4.4 out of 5. In the industry only 50% of respondents conduct this type of survey and of those, 90% report a satisfaction rating of between 4.1 and 5.



Efficiency - % of available time spent working on audits

In 2019, 81% of our available time was spent working on projects. The industry average is 70%.



Staff Certifications

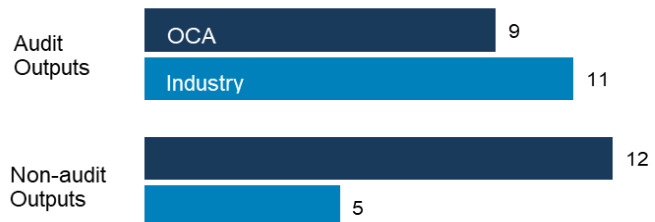
OCA staff certifications include - Certified Internal Auditor, Certified Fraud Examiner, Certification in Risk Management Assurance, Certified in Control Self-Assessment, and Certified Information Systems Auditor.

In 2019, 93% of OCA internal audit staff have at least one certification. In the industry, more than 50% of audit shop staff have at least one certification.



Audit and Non-audit Outputs

Audit outputs are reports related to an audit.
 Non-audit outputs are proactive project reports or memos, investigation reports, recommendation follow-up reports, etc.



Successful Internal Audit Practices

Independence and Objectivity

The functional reporting structure and the delegated powers, duties and functions included in the City Auditor Bylaw, and the strong practices of the OCA ensure the independence and objectivity of the Office and staff.

The City Auditor Bylaw establishes the internal audit activity's position within the organization, including the nature of the City Auditor's functional reporting relationship with Council; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. The City Auditor Bylaw also provides the Office with the organizational independence we require to fulfill our responsibilities. This independence ensures that the City Auditor can make a balanced assessment of all the relevant circumstances and not be unduly influenced by the administration in forming judgments.

As well, internal practices such as auditors signing independence confirmations for each project prior to working on it and informing the City Auditor of any potential conflicts of interest ensure auditors can remain objective and independent while they perform their work.

Internal Assessment

Internal assessments are part of the OCA's Quality Assurance and Improvement Program. We have a guideline for staff to follow that includes required reviews for each project and annually for the office as a whole. The OCA's internal assessment includes:

1. Ongoing monitoring – this is an integral part of the day-to-day supervision, review, and measurement of the OCA's activity.
2. Periodic assessments – this includes completion of a checklist for each project to assess the quality of the work against the OCA's Project Process Guideline and the IIA Standards they are based on and the completion of a form that compare the requirements of each IIA Standard to the actual practice of the OCA on an annual basis.

We develop action plans for any findings from the internal assessments and report them in our Annual Report.

Policies and Procedures

The OCA has comprehensive policies and procedures that reflect the requirements of the Standards. We have specific guidelines for completing projects, recommendation follow-up, annual planning, and our quality assurance and improvement program.

We developed each guideline to ensure that when we follow it we will be in compliance with the Standards that it relates to. We constantly monitor the Standards and update the guidelines as required to ensure we remain in compliance with the Standards and that they reflect our actual processes.

We have also built the guideline relating to the completion of projects into our electronic audit software project template. This way we can ensure each project we complete is in accordance with the Standards.

Opportunities for Continuous Improvement

Performance Measurement Framework

The purpose of a performance measurement framework is to provide a consistent approach for systematically collecting, analyzing, utilizing, and reporting on the performance of programs and activities in achieving their established goals and intended outcomes.

The OCA has performance measures but does not have a formal, documented performance measurement framework. This would clearly define roles, responsibilities, accountabilities, and procedures for performance management activities. Not having a documented performance measurement framework affects the ability of the Office to consistently and systematically collect, analyze, utilize, and report on its performance.

Dealing with Emerging Issues

It is a requirement of Standard 2010 that the City Auditor reviews and adjusts the annual work plan as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls.

OCA Staff, City Council members, City staff or the public bring these emerging issues to the attention of the City Auditor. The City Auditor assesses their importance and risks and, as stated in the City Auditor Bylaw, uses his discretion to determine if the office will take on the project immediately or include it in our Audit Universe to be assessed against other potential projects in the future.

When a project must be done immediately the City has two options:

1. Use hours set aside in our Annual Plan for emerging issues to complete the project; or
2. Formally adjust the Annual Plan. As the Annual Plan is approved by the Audit Committee, the City Auditor must notify them if he makes changes to it.

The OCA has an Annual Planning Guideline that lays out the process of developing our Annual Work Plan. However, the Guideline does not include the process for adjusting the plan during the year.

Recommendations

Recommendation 1

Performance Measurement Framework

Recommendation

Develop and implement a formal performance measurement framework.



Responsible party:

City Auditor

Response

We will develop our Performance Measurement Framework to follow a cycle of:

- **Plan** - Develop measures and targets.
- **Act** - Collect data and perform analysis.
- **Report** - Develop a consistent approach to reporting publically and internally.
- **Evaluate** - Review results against goals and targets and look for areas of improvement.



Implementation:

July 30, 2020

Recommendation 2

Update Annual Planning Guideline

Recommendation

Update the Annual Planning Guideline to include process for dealing with emerging issues.



Responsible party:

City Auditor

Response

We have updated our Annual Planning Guideline to include our process for dealing with emerging issues.



Implementation:

Done

Methodology

The OCA compiled and prepared information consistent with the methodology established in the Institute of Internal Auditors Quality Assessment Manual for the Internal Audit Activity. 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 the OCA.

The OCA used the results of the City Auditor's 2018 Annual Appraisal, the results of the Post-Project Surveys sent to clients in 2019, and the results of a survey of OCA Staff completed in March of 2020 to inform the self-assessment process.

Prior to commencement of the on-site validation portion of the OCAs self-assessment, KRP held a preliminary meeting with the OCA 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, KRP reviewed information prepared by the OCA and the conclusions reached in the quality assessment report. KRP also conducted interviews with selected key stakeholders, including the Audit Committee Chair, the City Manager and other members of the administration, and OCA management and staff; reviewed a sample of audit projects and associated work-papers and reports; reviewed survey data; 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 the OCA's self-assessment. This statement is included as Appendix B to this report.

Appendix A – Evaluation Summary and Rating Definitions

		GC	PC	DNC
Overall Evaluation		✓		
Attribute Standards (1000 through 1300)		GC	PC	DNC
1000	Purpose, Authority, and Responsibility	✓		
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	✓		
1100	Independence and Objectivity	✓		
1110	Organizational Independence	✓		
1111	Direct Interaction with the Board	✓		
1112	Chief Audit Executive Roles Beyond Internal Auditing	✓		
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	✓		

Attribute Standards (1000 through 1300)		GC	PC	DNC
1320	Reporting on the Quality Assurance and Improvement Program	✓		
1321	Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	✓		
1322	Disclosure of Nonconformance	✓		
Performance Standards (2000 through 2600)		GC	PC	DNC
2000	Managing the Internal Audit Activity	✓		
2010	Planning	✓		
2020	Communication and Approval	✓		
2030	Resource Management	✓		
2040	Policies and Procedures	✓		
2050	Coordination and Reliance	✓		
2060	Reporting to Senior Management and the Board	✓		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	✓		
2100	Nature of Work	✓		
2110	Governance	✓		
2120	Risk Management	✓		
2130	Control	✓		
2200	Engagement Planning	✓		
2201	Planning Considerations	✓		
2210	Engagement Objectives	✓		
2220	Engagement Scope	✓		

Performance Standards (2000 through 2600)		GC	PC	DNC
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 <i>International Standards for the Professional Practice of Internal Auditing</i> "	✓		
2431	Engagement Disclosure of Nonconformance	✓		
2440	Disseminating Results	✓		
2450	Overall Opinions	✓		
2500	Monitoring Progress	✓		
2600	Communicating the Acceptance of Risks	✓		

Code of Ethics	GC	PC	DNC
Code of Ethics	✓		

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.

Appendix B – Independent Validation Statement



Suite 1500, 9888 Jasper Avenue NW
Edmonton, Alberta T5J 5C6
T. 780.424.3000 | F. 780.429.4817 | W. krpgroup.com

INDEPENDENT VALIDATION STATEMENT

Kingston Ross Pasnak LLP was engaged to conduct an independent validation of the City of Edmonton Office of the City Auditor IA self-assessment. The primary objective of the validation was to verify the assertions and conclusions made in the attached self-assessment report concerning adequate fulfillment of the organization's basic expectations of IA, its conformity to The IIA's *International Standards for the Professional Practice of Internal Auditing*, and successful internal audit practices and opportunities for continuous improvement noted. Other matters that might have been covered in a full external assessment, such as an in-depth analysis of successful practices based on benchmark data, governance activities, consulting services, and use of advanced technology, were excluded from the scope of this independent validation by agreement with the chief audit executive.

In acting as the qualified, independent external assessor from outside the organization, Kingston Ross Pasnak LLP is fully independent of the City of Edmonton Office of the City Auditor and has the necessary skills to undertake this engagement. The validation, concluded on April 30, 2020, consisted primarily of a review and a test of the procedures and results of IA's self-assessment. In addition, interviews were conducted with the City of Edmonton's City Manager, CFO, audit committee chair, other members of senior management, and the external auditors.

Kingston Ross Pasnak LLP concurs with IA's conclusions and observations documented in the self-assessment report attached. Implementation of the recommendations contained in the self-assessment report will improve the effectiveness, enhance the value, and support IA's conformity with the *Standards* and the Code of Ethics.

A handwritten signature in black ink that reads 'Kingston Ross Pasnak LLP'.

Kingston Ross Pasnak LLP
Chartered Professional Accountants

May 28, 2020