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# Proposed Internal Audit Administration Process and Amendments to Council Policy No. C02-032

## Recommendation

1. That the proposed administrative process for Internal Audit work be approved; and
2. That the Administration submit a report to City Council recommending amendments to Council Policy No. C02-032, Internal Audit Charter.

## Topic and Purpose

This report delivers an outline of the process for the administration of the Internal Audit system, including handling of terms of reference for the scope of work of each audit, handling of audit reports, updates on the audit plan and risk assessments, and additional audit or consulting work over and above that included in the annual audit plan. In addition, this report recommends minor amendments to Council Policy No. C02-032 for consideration.

## Report Highlights

1. This report proposes an administrative process for:
  - a. updating the key risks list by the Standing Policy Committee on Finance and aligning the audit plan with any changes to the key risks list or rankings annually;
  - b. developing and implementing the terms of reference for each particular audit, including any additional audits performed;
  - c. reporting and using audit results and how the Administration will respond to audit recommendations; and
  - d. requesting additional audits or consulting work.
2. Council Policy No. C02-032, Internal Audit Charter, requires minor amendments.

## Strategic Goal

Being efficient and effective through performance of internal audits supports the long-term strategy of being more efficient in the way we do business under the Strategic Goal of Continuous Improvement.

## Background

The Internal Audit services contract recently awarded to PricewaterhouseCoopers (PwC) included helping the City of Saskatoon (City) identify critical and strategic risks, and was intended to help focus the audit plan on the City's most important risks. The contract, which runs from January 1, 2015 to December 31, 2019 calls for PwC to perform 1,400 hours of work each year for an annual fee of \$224,650 in the first year, with 2% incremental increases in each subsequent year of the agreement. The City's

internal audit budget for 2015 is set at an amount (\$427,000) in excess of the contract amount to allow for additional audit or advisory work as may be necessary or desired.

The initial risk identification and ranking process is now complete, and the five-year internal audit plan was approved by the Standing Policy Committee on Finance (Committee) at its meeting on August 17, 2015. PwC has embarked on the first of the audits as outlined in the plan. It is important to provide the Committee with proposals for the administration of the Internal Audit program to assure the Committee that the best possible use of audit resources will be made.

## **Report**

### **Audit Plan**

The five-year audit plan is based on the key risks rankings provided by the Executive Committee. The key risks list and rankings will be reviewed and updated annually, as required by Section 5.9 of Council Policy No. C02-032, Internal Audit Charter (Attachment 1). Key risks and rankings will likely change over a period of time due to a number of reasons, including successes or changes in risk mitigation, personnel changes, financial aspects, or changes and developments in the overall internal or external business environment. If changes to the key risks and/or rankings are made, it would be necessary to realign the audit priorities to the new risk priorities.

In order to ensure ongoing alignment of the audit plan to the list of key risks, the Administration will submit an annual report to the Committee outlining proposed changes to the list of key risks and rankings. The Administration will also work with PwC to bring forward desired realignments of the audit plan for consideration of the Committee. These updates will occur in advance of, or concurrent with, the annual budget process so that any necessary alignments with the budget process may be coordinated. Once approved, the updated list of risks and audit plan will guide the work of Internal Audit and the risk management efforts of the Administration for the next year, including development of detailed audit Terms of Reference (TOR) for each audit to be performed in any one year.

### **Audit Terms of Reference (TOR)**

Each audit proposed in the initial or amended audit plan will require a detailed TOR. The TOR will provide information on the precise nature, focus and scope of the audit work, and cost information to the Administration. This will ensure that the audit meets the needs of the City and will help establish an expectation on cost of work prior to it being undertaken. The draft TOR document will be developed by Internal Audit in consultation with the Administration and then submitted to the Committee (In Camera) for comment and feedback, and later tabled with the Committee at its next public meeting.

### **Audit Reports**

As per Council Policy No. C02-032, Internal Audit will provide detailed draft reports to the Administration on all completed audits for review and comment, and to the Committee (In Camera) for review, comment and feedback. Upon finalization, an

executive summary of the report will be submitted to the Committee for approval (public agenda).

All audit reports presented to the Committee will incorporate comments from the Administration highlighting their perspective and/or specific actions that are planned to be undertaken to implement the recommendations of the Internal Audit team. The Administration will also provide a report as necessary to the Committee highlighting the status of the implementation of action plans agreed within different audit reports on a go forward basis.

#### Additional Audit and Consulting Work

Council Policy No. C02-032 provides that the Committee, or the City Manager, may request additional audits and/or consulting work above and beyond those outlined in the five-year audit plan where necessary or desirable. Where the budget allows, any such additional audit or consulting work requests will be handled according to the administrative process as outlined in this report, and subject to the requirements of the process and Council Policy No. C02-032. Where the annual budgeted amount had been allocated, and additional work is deemed necessary, a report to the Committee will set out the terms of reference and costs, and seek approval for the work and any necessary additional funds.

Where a report is submitted to the Committee in respect of any of the above, the Committee, as a matter of course, will have an opportunity to discuss the report privately with the Internal Auditor.

#### Amendments to Council Policy No. C02-032

The Administration is recommending amendments to Council Policy No. C02-032, as shown in Attachment 1, in order to reflect the current committee structure and refocus the internal audit plan on risk based audit methodology. If approved, the Administration will submit a report to City Council for its consideration.

#### **Options to the Recommendation**

The Committee could elect to set any other process in accordance with Council Policy No. C02-032.

#### **Communication Plan**

The Administration will develop an audit information communications strategy with staff from the Communications Division.

#### **Other Considerations/Implications**

There are no policy, financial, environmental, privacy, CPTED or other implications, and public and/or stakeholder involvement is not required.

#### **Due Date for Follow-up and/or Project Completion**

There is no due date for follow-up and/or project completion as this project is ongoing.

**Public Notice**

Public Notice pursuant to Section 3 of Policy No. C01-021, Public Notice Policy, is not required.

**Attachment**

1. Council Policy No. C02-032

**Report Approval**

Written by: Wayne Bischoff, Director of Corporate Risk

Approved by: Kerry Tarasoff, CFO/General Manager, Asset & Financial  
Management Department

Internal Audit Admin Process.docx

# CITY OF SASKATOON COUNCIL POLICY

NUMBER

C02-032

<b>POLICY TITLE</b> <i>Internal Audit Charter</i>	<b>ADOPTED BY:</b> <i>City Council</i>	<b>EFFECTIVE DATE</b> <i>January 19, 2004</i>
		<b>UPDATED TO</b> <i>April 16, 2012</i>
<b>ORIGIN/AUTHORITY</b> <i>Clause 2, Report No. 1-2004 of the Audit Committee; and Clause 2, Report No. 1-2012 of the Audit Committee</i>	<b>CITY FILE NO.</b> <i>CK. 1600-1</i>	<b>PAGE NUMBER</b> <i>1 of 10</i>

## 1. PREFACE

- 1.1 Section 1000 of the IIA Standards for the Professional Practice of Internal Auditing require that the purpose, authority and responsibility of the Internal Audit Function be formally defined in a Charter, consistent with the Standards, and approved by the governing body.
- 1.2 This Charter formalizes the Internal Audit Function, defines the scope and responsibilities of the Internal Auditor, and provides the Internal Auditor with the necessary authority to fulfill his/her responsibilities.
- 1.3 This document draws extensively on material published by the Institute of Internal Auditors including, but not necessarily limited to, the International Standards for the Professional Practice of Internal Auditing (hereafter referred to as the IIA Standards) and related Practice Advisories.

## 2. POLICY OBJECTIVES

- 2.1 To ensure the independence and objectivity of the Internal Audit Function.
- 2.2 To ensure the Internal Audit Function adheres to the Standards for the Professional Practice of Internal Auditing.

## 3. DEFINITIONS

- 3.1 Assurance Audit – An objective examination of evidence for the purpose of providing an independent assessment on risk management, control, and governance processes for City Council. Examples of assurance audits are provided in section 5.8 of this policy.

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- 3.2 Compliance – The ability to reasonably ensure conformity and adherence to legislation, regulations, contracts, agreements, policies, plans, and procedures.
- 3.3 Consulting Services – Advisory and related client service activities, the nature and scope of which are agreed upon with City Council, the ~~Audit Committee~~ **Standing Policy Committee on Finance**, or the City Manager and which are intended to add value and improve the City’s operations. Examples include counsel, advice, facilitation, process design, and training.
- 3.4 Fraud – Any illegal acts characterized by deceit, concealment, or violation of trust. These acts are not dependent upon the application of threat of violence or of physical force. Frauds are perpetrated by individuals and organizations to obtain money, property, or services; to avoid payment or loss of service; or to secure personal or business advantage.
- 3.5 Governance Processes – The procedures utilized by City Council and its Committees, Boards, and Commissions to provide oversight of risk and control processes administered by management.
- 3.6 IIA Standards – Institute of Internal Auditors Standards for the Professional Practice of Internal Auditing.
- 3.7 Internal Auditing – Independent, objective assurance and consulting activity designed to add value and improve an organization’s operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.
- 3.8 Risk – The uncertainty of an event occurring that could have an impact on the achievement of objectives. Risk is measured in terms of consequences and likelihood.

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## 4. POLICY STATEMENT

- 4.1 City Council shall retain an Internal Auditor, independent of management, to provide internal assurance audit and consulting services designed to add value and improve the City's operations.
- 4.2 The mission of the Internal Audit Function is to help the City accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the efficiency and effectiveness of risk management, control, and governance processes.

## 5. POLICY REQUIREMENTS

### 5.1 Standards

- a) The Internal Auditor shall adhere to the *Standards for the Professional Practice of Internal Auditing* and the *Code of Ethics* of the Institute of Internal Auditors.

### 5.2 Reporting Relationship

- a) The Internal Auditor shall report to and be accountable to City Council through the ~~Audit Committee~~ **Standing Policy Committee on Finance** of City Council.
- b) Appointment and dismissal of the Internal Auditor shall be based on recommendations from the ~~Audit Committee~~ **Standing Policy Committee on Finance** and shall require the approval of a majority of City Council.

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## 5.3 Authority

- a) The Internal Auditor shall have authority to audit all aspects of the City's operations including governance processes, departments, programs, business processes, systems, functions, activities, policies, etc.
- b) In accordance with IIA Standard 1110, the Internal Auditor shall be free from interference in determining the scope of internal auditing, performing work, and communicating results. Subject to complying with the requirements of IIA Standard 1110, the Internal Auditor shall consult with management and the ~~Audit Committee~~ **Standing Policy Committee on Finance** for input into the lines of enquiry to be pursued in each audit.
- c) The Internal Auditor shall have unrestricted access to all records, personnel and physical property relevant to the performance of audits.

## 5.4 Scope of Internal Audit Activities

- a) The Internal Auditor shall **utilize a methodology that links internal audit practices to the City's risk management systems, so as to provide assurance to Council that risk management practices and processes are managing risk effectively. The Internal Auditor shall** determine and report on the extent to which the City's network of risk management, control, and governance processes, as designed and represented by management and City Council, is adequate and functioning in a manner to ensure:
  - i) With respect to financial systems, that risks are appropriately identified and are effectively managed;
  - ii) In accordance with an audit plan, that significant financial, managerial, and operating information is accurate, reliable, and timely;
  - iii) In accordance with an audit plan, due diligence is exercised in the development and implementation of computer systems and system changes;



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- iv) With respect to financial systems, employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- v) In accordance with an audit plan, that resources are acquired economically, used efficiently, and adequately protected; and
- vi) With respect to financial systems, that quality and continuous improvement are fostered in the organization's control process.

### 5.5 Role of Internal Audit in Providing Consulting Services

- a) The Internal Auditor shall have authority to perform consulting services where such services do not represent a conflict of interest or detract from the Internal Auditor's assurance services obligations.
- b) The performance of consulting services by the Internal Auditor shall be governed by the IIA Standards.

### 5.6 Role of Internal Audit in the Risk Management Process

- a) Risk management is a key management responsibility. This responsibility includes identifying, assessing, mitigating, and monitoring risks on a continuous basis.
- b) Consistent with IIA Standard 2110, the Internal Auditor shall assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems.

### 5.7 Role of Internal Audit in Fraud Investigation

- a) Management is responsible for establishing and maintaining controls to discourage the perpetuation of fraud and limit the exposure if fraud does occur.
- b) The Internal Auditor is responsible for assisting in the deterrence of fraud by examining and evaluating the adequacy and the effectiveness of the system of internal control, with due consideration to the extent of the potential exposure/risk in the various segments of the City's operations.

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- c) The Internal Auditor shall be notified of all fraud allegations or potential conflict of interest situations. The Internal Auditor may provide assistance in investigating and documenting the nature, extent, and effect of any allegations, ensuring sensitivity and confidentiality throughout the process.

### 5.8 Types of Assurance Audits

- a) The types of assurance audits to be undertaken by the Internal Auditor shall include, but not necessarily be limited to:
- i) Financial control audits – to determine if adequate systems, practices, and controls are in place to safeguard the City’s financial resources;
  - ii) Fraud investigations – to determine whether fraud has occurred, identify the perpetrator(s), identify the extent of the fraud, and determine the techniques used and cause of the fraud;
  - iii) Follow-up audits – to assess the actions taken by management and City Council in response to significant audit observations and recommendations.
  - iv) **Value for Money Audits – to assess the efficiency, effectiveness and economy of operations, activities or programs.**

### 5.9 Corporate Audit Plan

- a) The Internal Auditor shall establish a long-range plan for assurance audits. The input of management and the ~~Audit Committee~~ **Standing Policy Committee on Finance** shall be considered in this process.
- b) The long-range plan shall be based on a risk assessment and shall be updated at least annually. The actual cycle for specific departments, programs, or functions appearing in the long-range plan shall be based on weightings assigned to various risk factors including, but not necessarily limited to, materiality (e.g. the size of the budget), staff levels, type of organization (e.g. Board vs. department), findings from previous audit, extent of public exposure, funding source, relevant legislative requirements, and complexity/diversity.

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- c) The Plan shall be subject to City Council approval.

## 5.10 Coordination of Internal Audit with External Parties

- a) The Internal Auditor shall meet with the City's External Auditor on at least a semi-annual basis to share information and coordinate activities for the purpose of ensuring proper audit coverage and minimizing duplication of effort.

## 5.11 Reporting Results of Internal Audits

- a) The Internal Auditor shall document the results of each assurance audit in a formal report. The report shall be discussed with management, shall incorporate management responses and target dates for implementation of recommendations, and shall be tabled with and presented to the ~~Audit Committee~~ **Standing Policy Committee on Finance**.
- b) All information systems and cash handling audit reports shall remain in-camera, shall not be tabled with City Council, and shall not be made available to the public.
- c) The City's External Auditor shall have access to all information systems and cash handling audit reports after they have been tabled with, presented to, and cleared through the ~~Audit Committee~~ **Standing Policy Committee on Finance**. Distribution of information systems and cash handling audit reports to any and all other external parties shall be subject to the prior approval of the ~~Audit Committee~~ **Standing Policy Committee on Finance**.
- d) Notwithstanding (d) above, the Internal Auditor shall have authority to release copies of any information systems or cash handling audit report to other municipal Internal Auditors on the understanding that recipients respect the confidentiality of these documents. The Internal Auditor shall inform the ~~Audit Committee~~ **Standing Policy Committee on Finance** of any such requests that have been received and reports released.

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## 5.12 Management Response to Assurance Audit Findings

- a) After being provided with draft audit observations, the manager with authority to and responsibility for taking corrective action shall, in a timely manner, provide a written response to the Internal Auditor on the recommendations contained in the report.
- b) Management shall, in a timely manner, following receipt of the audit report, provide the Internal Auditor with a plan of action, including target dates, for implementing the audit recommendations.
- c) The Internal Auditor shall have authority to set the timelines for the receipt of a response or action plan, with respect to (a) and (b) above, when, in the opinion of the Internal Auditor, it is necessary to set the timelines, and may grant any such extensions to the same.
- d) Management shall provide the ~~Audit Committee~~ **Standing Policy Committee on Finance** with progress reports, until action has been taken on all audit recommendations.

## 5.13 Follow-up

- a) The Internal Auditor shall include all follow-up audits in the Corporate Audit Plan.
- b) The follow-up audit procedure and reporting shall be performed in accordance with the process approved by the ~~Audit Committee~~ **Standing Policy Committee on Finance**.

## 5.14 Audit Working Papers

- a) Audit working paper files are the property of the Internal Auditor. They shall remain under the control of, and shall be accessible only to personnel authorized by, the Internal Auditor.
- b) Access to working paper files shall be governed by the IIA Standards for the Professional Practice of Internal Auditing and related Practice Advisories.

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## 5.15 Consulting Legal Counsel & Labor Relations Expertise

- a) The Internal Auditor shall consult with the City Solicitor before including results and issuing opinions in audit reports regarding legal or regulatory violations or other legal issues.
- b) The Internal Auditor shall consult with the City's Human Resources ~~Branch~~ **Division** before including results and issuing opinions in assurance engagement reports that could have labor relations implications.

## 5.16 Accountability Reporting Requirements

- a) The Internal Auditor shall provide the ~~Audit Committee~~ **Standing Policy Committee on Finance** with periodic reports (no less than quarterly) on performance and progress relative to the Corporate Audit Plan.
- b) The Internal Auditor shall disclose to the ~~Audit Committee~~ **Standing Policy Committee on Finance**, the nature and extent of all consulting engagements undertaken at the request of the City Manager.

## 5.17 Periodic Assessment of the Charter

- a) The Internal Auditor shall periodically assess whether the purpose, authority, and responsibility of the internal audit function, as defined in the Charter, continue to be adequate to enable the internal audit function to accomplish its objectives. The Internal Auditor shall communicate the results of the assessments to the ~~Audit Committee~~ **Standing Policy Committee on Finance**.

## 5.18 Communications with and Access to the Internal Auditor

- a) The Chair of the ~~Audit Committee~~ **Standing Policy Committee on Finance** may consult and/or meet with the Internal Auditor prior to any scheduled ~~Audit Committee~~ **Standing Policy Committee on Finance** meeting for the purpose of preparing the ~~Audit Committee~~ **Standing Policy Committee on Finance** agenda.
- b) Individual members of City Council shall have unrestricted authority to meet at any time with the Internal Auditor but shall have no authority to direct the Internal Auditor to undertake any audit work.

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- c) Only the ~~Audit Committee~~ **Standing Policy Committee on Finance**, or the City Manager, shall have authority to engage the Internal Auditor to perform audits pursuant to this policy. Any requests by individual Councillors to engage the services of the Internal Auditor must be referred to the ~~Audit Committee~~ **Standing Policy Committee on Finance** for decision. This does not preclude the opportunity for the applicable Councillor to consult and/or meet in confidence with the Internal Auditor prior to the matter being brought before the Committee.

## 6. ENQUIRIES

All enquiries concerning this Charter should be referred to the Internal Auditor and/or the Chair of the ~~Audit Committee~~ **Standing Policy Committee on Finance**.