

EXTERNAL ASSESSMENT – CITY AUDITOR'S OFFICE

EXECUTIVE SUMMARY

The Institute of Internal Auditors (IIA) completed an External Assessment of the City Auditor's Office (CAO) in March, 2017. The assessment concluded with a "Generally Conforms" (the highest rating available) to the IIAs' International Standards for the Professional Practice of Internal Auditing (Standards). The assessment report (AC2017-0357) presented at the April 20, 2017 Audit Committee meeting included four recommendations which reflected internal process improvement opportunities. The CAO committed to provide responses to the report recommendation before June 26, 2017. This report details the CAO responses to the recommendations with planned implementation dates no later than September 30, 2018.

RECOMMENDATIONS:

1. That Audit Committee receive this report for information; and
2. That Audit Committee recommend that Council receive this report for information.

RECOMMENDATION OF THE AUDIT COMMITTEE, DATED 2017 JUNE 22:

That Council receive this Report for information.

PREVIOUS COUNCIL DIRECTION / POLICY

Bylaw 30M2004 (as amended) states that the City Auditor shall be subject to the supervision of and accountable to Council and report to Council through Audit Committee.

Bylaw 48M2012 (as amended) Schedule C 1(c) states that the Audit Committee "ensures that the CAO undergoes a Quality Assessment review, as prescribed by the IIA at least every five years."

BACKGROUND

The City Auditor's Office provides independent and objective internal audit services for the City of Calgary (The City). The CAO Charter (AC2016-0247) states that the CAO is responsible for assisting Council in its oversight of the City Manager's administration and accountability for stewardship over public funds and achievement of value for money in City operations.

The CAO adheres to the IIAs' Standards. Standard 1312 states "external assessments must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization". The previous External Assessment was conducted by an external consultant and their report was presented to Audit Committee in March 2013 (AC2013-0278) with a conclusion of 'Generally Conforms'. In May, 2016, Audit Committee provided agreement on an approach to bring in representatives of the IIA to conduct the 2017 assessment (AC2016-0328).

Standard 1320 states that "The chief audit executive must communicate the results of the quality assurance and improvement program to senior management and the board. Disclosure should include:

- The scope and frequency of both the internal and external assessments.

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- The qualifications and independence of the assessor(s) or assessment team, including potential conflict of interest.
- Conclusions of assessors.
- Corrective action plans.”

The external assessment was completed by the IIA during March, 2017, and the report was issued to the CAO on April 3, 2017. The City Auditor committed to respond to the IIA's recommendations with specific action plans no later than June 26, 2017.

INVESTIGATION: ALTERNATIVES AND ANALYSIS

Stakeholder Engagement, Research and Communication

The CAO values continuous improvement and through discussions with members of the CAO determined that all four recommendations raised in the report had merit and should be incorporated as appropriate in our audit practices. At the same time, as none of these recommendations indicated lack of compliance with Standards, our main commitment is to support completion of our approved 2017/2018 Audit Plan. As a result our responses reflect assessment and incorporation of process improvement opportunities as can be managed with existing resources. Specifics of the recommendations and our commitment to implement are detailed below. To keep Audit Committee informed on our progress we will provide updates on these action plans as part of our quarterly reporting.

CAO Response to Recommendations

1. Define periodic time frame in Quality Assurance and Improvement Program

There is a comprehensive Quality Assurance and Improvement Program (QAIP) in place to evaluate conformance with the Standards and Code of Ethics, with both ongoing and periodic assessments as required. The periodic assessment portion sets out quarterly, annual and other longer risk-based time frames, but there is no statement as to the maximum period over which all Standards will be assessed.

Recommendation

Revise the QAIP to define the maximum time frame for periodic assessments in order to ensure timely coverage of all Standards.

CAO Response

Agreed. The QAIP will be modified to specify the maximum period over which all standards will be assessed and processes will be put in place to ensure these timeframes are met.

Commitment Date: November 30, 2017

2. Map Standards to the QAIP

The QAIP is effectively designed to embed quality control over conformance to many of the Standards into day-to-day operations in both the ongoing and periodic portions and to cover the remaining according to the risk based plan. However, there is a need to cross-reference the Standards to the QAIP to ensure completeness.

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Recommendation

Map or reference Standards to the QAIP to confirm all Standards continue to be covered by the program.

CAO Response

Agreed. The QAIP will be modified to include cross-referencing to the *Standards* to ensure completeness.

Commitment Date: November 30, 2017

3. Consider Self-assessing the CAO Against a Maturity Scale

Having attained the overall assessment opinion of "Generally Conforms" to Standards, the CAO now has an opportunity to consider in what additional areas they might wish to go beyond conformance in provision of their services. There are a number of generally accepted scales or frameworks suitable for measuring internal audit maturity. Plotting CAO operations against a maturity scale could provide a valuable perspective on new opportunities for improvement allowing the CAO and Audit Committee to choose those that could be advantageous for the City.

Recommendation

Consider self-assessing against a maturity scale in order to identify and prioritize areas for future opportunities for continuous improvement beyond conformance to Standards.

CAO Response

Agreed. The CAO first conducted a self-assessment against The Public Sector Maturity Scale in 2013. These results were shared with members of Audit Committee, and influenced several of the CAO initiatives that were successfully implemented since that time. Four years later we recognize value in conducting a self-assessment against the same maturity scale and engaging in discussions with the CAO and Audit Committee to identify potential new priorities and opportunities.

Commitment Date: September 31, 2018

4. Adapt CAO Control Processes and Culture to Enhance Efficiency

The CAO QAIP has been operating well providing a high level of conformance to Standards. Opportunity now exists to adapt the embedded controls and disciplines to suit the specific needs or level of complexity of individual audit engagements or processes. Use of selected control tools on a "use or explain" basis could produce efficiencies while still providing an adequate level of discipline.

Recommendation

Adapt CAO control processes and culture to ensure most efficient use of the QAIP.

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CAO Response

Agreed. The CAO is committed to continuous improvement to ensure we provide The City with the most effective and efficient audit services. We are pleased that the external quality assessment concluded that our QAIP provides a high level of conformance to Standards. Following this recommendation we will further evaluate our day to day practices to identify process opportunities where we may be able to gain efficiencies, while still maintaining conformance to Standards.

Commitment Date: September 31, 2018

Strategic Alignment

An External Assessment provides assurance that the CAO is in conformance with the Standards. This conformance provides additional assurance that the CAO is providing effective audits, which in turn supports greater accountability for stewardship over public funds and achievement of value for money in City operations.

Social, Environmental, Economic (External)

N/A

Financial Capacity

Current and Future Operating Budget:

These recommendations will be implemented utilizing resources within existing operating budget.

Current and Future Capital Budget:

N/A

Risk Assessment

The activities of the CAO serve to promote accountability, mitigate risk, and support an effective governance structure.

REASON FOR RECOMMENDATIONS:

Bylaw 30M2004 (as amended) states that the City Auditor shall be subject to the supervision of and accountable to Council and report to Council through Audit Committee.