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Attachment

# External Quality Assessment of The City Auditor's Office CITY OF CALGARY

**MARCH 2017**

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## EXECUTIVE SUMMARY

As requested by the City Auditor (CA), IIA Quality Services, LLC. (Quality) conducted a quality assessment (QA) of the City Auditors Office (CAO) of the City of Calgary. The principal objectives of the QA were to assess the CAO's conformance to The IIA's *International Standards for the Professional Practice of Internal Auditing (Standards)*, evaluate the CAO's effectiveness in carrying out its mission (as set forth in its charter and expressed in the expectations of City of Calgary's management), and identify opportunities to enhance its management and work processes, as well as its value to City of Calgary.

## OPINION AS TO CONFORMANCE TO THE STANDARDS

**It is our overall opinion that the CAO generally conforms to the *Standards*, Code of Ethics** and demonstrates a clear intent and commitment to achieving the Core Principles for the professional practice of internal auditing. For a detailed list of conformance to individual *Standards*, please see Appendix A. The assessment team identified opportunities for further improvement, details of which are provided in this report.

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

## SCOPE AND METHODOLOGY

As part of the preparation for the assessment, the CAO prepared an advanced preparation document with detailed information and sent out surveys to its staff and a representative sample of City of Calgary executives. A summary of the survey results (without identifying the individual survey respondents) has been furnished to the CAO. Prior to commencement of the onsite work by the assessment team on March 13, 2017, the team leader conducted a preliminary meeting with the CA to gather additional background information, select executives for interviews during the onsite field work, and finalize planning and administrative arrangements for the assessment.

As part of the assessment, extensive interviews were held with City of Calgary's Audit Committee Chairman, the City Manager, the Deputy City Manager, the City Solicitor, three General Managers, the External Auditor, the CA and a selection of CAO staff. Also reviewed were the CAO's governance documents, risk assessment and audit planning processes, audit tools and methodologies, engagement and staff management processes and a representative sample of the CAO's audit working papers and reports.

## OBSERVATIONS AND POSITIVE ATTRIBUTES

The CAO environment where the assessment was performed is well-structured and progressive, the *Standards* are understood, and management is endeavoring to provide effective audit tools and implement appropriate practices. Some leading successful practices observed were:

- “Seat at the table” with senior executives – regular attendance at Senior Management Team meetings and other management meetings to be aware of emerging strategies and risks and to advise on impacts.
- Trusted advisor – partnering with management to provide insight and advice in the early phases of projects, imparting a preventive approach to managing risks and accomplishing objectives.
- Collaborative approach with management, enhancing the value of recommendations, and the efficiency and timeliness of their implementation.
- Initiatives on data analytics and assurance mapping to develop effective and efficient processes for auditing and assurance.
- The IIA Annual Code of Ethics and Conflict of Interest sign-off, which covers Internal Audit, City of Calgary, and other professional standards.
- Approach of continuous improvement throughout CAO.

Consequently, recommendations and opportunity comments are intended to build on the foundation already in place within the CAO.

## **RECOMMENDATIONS**

Recommendations are divided into two groups:

- Items related to conformance with *Standards*, and
- Recommendations for continuous improvement and not related to conformance with the *Standards*.

Highlights of the recommendations and opportunity comments are set forth below, with details in the main body of the report.

## **MATTERS RELATED TO CONFORMANCE WITH STANDARDS**

1. **Define periodic time frame in Quality Assurance and Improvement Program.** (Standard 1311)
2. **Map *Standards* to the Quality Assurance and Improvement Program.** (Standard 1311)

## **OPPORTUNITIES FOR CONTINUOUS IMPROVEMENT**

1. **Consider self-assessing the CAO against a maturity scale.** (Standard 1300)
2. **Adapt CAO control processes and culture to enhance efficiency.** (Standard 1300)
3. **Reduce audit and reporting processes using a risk-based approach.** (Standard 2200, 2300, 2400, and 2420)

Thank you for the opportunity to be of service to City of Calgary. The assessment team will be pleased to respond to further questions concerning this report and to furnish any desired information.



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Archie R. Thomas, CIA, FCPA, FCMA, CFE, C.Dir  
Team Leader  
IIA Quality Services, LLC



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Tracy Darakjian, CIA  
Director, Quality Services  
IIA Quality Services, LLC

**Team Member:**

Andy Tsang, CIA, CPA, CMA, CFE

## OBSERVATIONS AND RECOMMENDATIONS

### MATTERS RELATED TO CONFORMANCE WITH *STANDARDS*

#### 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**

The CAO is appreciative of the recommendation and will provide a formal response as a separate Appendix B no later than June 27, 2017.

#### 2. Map *Standards* to the Quality Assurance and Improvement Program

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.

##### ***Recommendation***

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

##### **CAO Response**

The CAO is appreciative of the recommendation and will provide a formal response as a separate Appendix B no later than June 27, 2017.

## OPPORTUNITIES FOR CONTINUOUS IMPROVEMENT

### 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 of Calgary.

#### ***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**

The CAO is supportive of continuous improvement and will provide a formal response as a separate Appendix B no later than June 27, 2017.

### 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.*

#### **CAO Response**

The CAO is supportive of continuous improvement and will provide a formal response as a separate Appendix B no later than June 27, 2017.

## **5. Reduce Audit and Reporting Processes Using a Risk-based Approach**

Assessment work including client and staff interviews indicated both willingness and desire to reduce the total cycle time of audits with potential in the planning, field work and reporting phases. Application of CAO processes using a risk-based approach to build greater flexibility could potentially produce efficiencies and reduce the time spent on engagements including in reporting.

### ***Recommendation***

*Reduce audit and reporting processes using a risk based approach, to improve total audit cycle time.*

### **CAO Response**

The CAO is supportive of continuous improvement and will provide a formal response as a separate Appendix B no later than June 27, 2017.



## APPENDIX A - Standards Conformance Evaluation Summary

### CITY OF CALGARY

		GC	PC	DNC
<b>OVERALL EVALUATION</b>		<b>x</b>		
<b>ATTRIBUTE STANDARDS</b>		<b>x</b>		
<b>1000</b>	<b>Purpose, Authority, and Responsibility</b>	<b>x</b>		
1010	Recognition of the Definition of Internal Auditing	x		
<b>1100</b>	<b>Independence and Objectivity</b>	<b>x</b>		
1110	Organizational Independence	x		
1111	Direct Interaction with the Board	x		
1120	Individual Objectivity	x		
1130	Impairments to Independence or Objectivity	x		
<b>1200</b>	<b>Proficiency and Due Professional Care</b>	<b>x</b>		
1210	Proficiency	x		
1220	Due Professional care	x		
1230	Continuing Professional Development	x		
<b>1300</b>	<b>Quality Assurance and Improvement Program</b>	<b>x</b>		
1310	Requirements of the Quality Assurance and Improvement Program	x		
1311	Internal Assessments		x	
1312	External Assessments	x		
1320	Reporting on the Quality Assurance and Improvement Program	x		
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	x		
1322	Disclosure of Nonconformance	x		
<b>PERFORMANCE STANDARDS</b>		<b>x</b>		
<b>2000</b>	<b>Managing the Internal Audit Activity</b>	<b>x</b>		
2010	Planning	x		
2020	Communication and Approval	x		
2030	Resource Management	x		
2040	Policies and Procedures	x		
2050	Coordination	x		
2060	Reporting to Senior Management and the Board	x		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	x		
<b>2100</b>	<b>Nature of Work</b>	<b>x</b>		

		GC	PC	DNC
<b>OVERALL EVALUATION</b>		<b>x</b>		
2110	Governance	x		
2120	Risk Management	x		
2130	Control	x		
<b>2200</b>	<b>Engagement Planning</b>	<b>x</b>		
2201	Planning Considerations	x		
2210	Engagement Objectives	x		
2220	Engagement Scope	x		
2230	Engagement Resource Allocation	x		
2240	Engagement Work Program	x		
<b>2300</b>	<b>Performing the Engagement</b>	<b>x</b>		
2310	Identifying Information	x		
2320	Analysis and Evaluation	x		
2330	Documenting Information	x		
2340	Engagement Supervision	x		
<b>2400</b>	<b>Communicating Results</b>	<b>x</b>		
2410	Criteria for Communicating	x		
2420	Quality of Communications	x		
2421	Errors and Omissions	x		
2430	Use of "Conducted in conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	x		
2431	Engagement Disclosure of Nonconformance	x		
2440	Disseminating Results	x		
2450	Overall Opinions	x		
<b>2500</b>	<b>Monitoring Progress</b>	<b>x</b>		
<b>2600</b>	<b>Management's Acceptance of Risks</b>	<b>x</b>		
<b>IIA Code of Ethics</b>		<b>x</b>		