

Recommendation for External Assessment Provider and Funding

Every five years, in accordance with Bylaw 30M2020 and The Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing (*Standards*), the City Auditor's Office internal audit activity must undergo an independent External Assessment.

The last External Assessment completed in Q2 2017 was conducted by the IIA. Procurement of a resource to complete the next External Assessment must be initiated during the latter half of 2021 to support completion during Q1/Q2 2022. The City Auditor's Office requires Audit Committee approval to initiate procurement.

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 chief audit executive must discuss with the board:

- The form and frequency of external assessment.
- The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest."

Standard 1312 further elaborates that a qualified and independent assessment team should demonstrate competency in two areas: the professional practice of internal auditing, and the external assessment process. Independence is defined in *Standard 1312* as not having either a real or an apparent conflict of interest and not being part of, or under the control of, the organization where the internal audit activity takes place. The *Standard* concludes that "The chief audit executive should encourage board oversight in the external assessment to reduce perceived or potential conflicts of interest."

There are three main types of providers who would be qualified to complete an External Assessment:

- Professional Services firms;
- The Association of Local Government Auditors; and
- The Institute of Internal Auditors.

Based on prior External Assessments, we expect the cost to be in the range of \$25,000 - \$40,000, which is below the City's threshold for competitive tender of \$75,000. In accordance with City procurement policies, we have not contacted potential providers for a more precise estimate. We have assessed each type of provider below considering qualification, independence, availability and cost.

Analysis of Providers

1. Professional Services Firm – Competitive Tender Process

Various professional services firms offer External Assessments. A competitive procurement process would be required to compare offerings, including price.

Considerations to contracting with a professional services firm are:

- a. **Qualification:** The IIA does not provide any oversight of the professional services firm engaged. There is no standardized approach since each firm proposes its own approach, qualification, and independence as part of the response to the competitive tender process. Individual firms may have limited experience in conducting an External Assessment in a Canadian Municipal audit environment.
- b. **Independence:** A firm could be indirectly incentivized to offer further work following the

- External Assessment, which could be perceived as compromising independence.
- c. Availability: Given the range and size of professional services firms it is likely that an External Assessment could be completed within the required timeframe.
 - d. Cost: Competitive tender process allows comparison of costs.

2. Association of Local Government Auditors (ALGA) – Single Source

ALGA developed a Peer Review Program in 1991 to assist local government audit organizations in meeting the profession's standards. The IIA have reviewed the Peer Review Program and found that it satisfies the requirements of an External Assessment.

However, due to the COVID-19 pandemic, the ALGA Peer Review Program is currently in a pilot phase and is only conducting External Assessments that were requested by organizations prior to COVID-19. As a result, it is not anticipated a Peer Review could be completed to satisfy the requirement for an External Assessment within the required timeframe.

3. Institute of Internal Auditors – Single Source

IIA Quality Services are part of the IIA and conduct External Assessments using the IIA's Quality Assessment Manual for the Internal Audit Activity.

Considerations to contracting with the IIA are:

- a. Qualifications: As part of the professional organization who set the *Standards*, IIA Quality Services provide an authoritative view on conformance. They have experience gained over many years conducting External Assessments, including Canadian Municipal internal audit activities, and can provide relevant opportunities for improvement and best practice suggestions.
- b. Independence: The IIA would have no conflict that would impact independence as a standard setting body who do not provide other consultancy services.
- c. Availability: The IIA have indicated that they could accommodate an assessment within the required timeframes.
- d. Cost: The IIA is a not-for-profit organization. The likely cost is expected to be comparable with costs of a provider contracted through a competitive tender process.

Conclusion and Recommendation

Based on the analysis above, the City Auditor's Office requests approval from Audit Committee to initiate procurement of an External Assessment conducted by IIA Quality Services. Utilizing IIA Quality Services provides Audit Committee with assurance, from the professional standards body itself, that the City Auditor's Office is in conformance with the *Standards*. In addition, IIA Quality Services has experience assessing Canadian Municipal audit activities, has no real or perceived conflict of interest, and can complete the assessment at an expected equivalent cost to a competitive procurement process.

Consistent with previous External Assessments, the City Auditor's Office also requests approval that Audit Committee will provide funds to cover the cost of the 2022 External Assessment from their 2022 budget, based on availability of sufficient funds to meet the likely cost.