THE CITY OF

CALGARY

CITY AUDITOR'S OFFICE

3rd QUARTER 2015 REPORT
July 1, 2015 – September 30, 2015

October 15, 2015

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City Auditor

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1. Introduction

The City Auditor is accountable to City Council and subject to the oversight of the Audit Committee in accordance with Bylaw 48M2012 (as amended).

Over each calendar year, the City Auditor will issue three quarterly status reports to the Audit Committee along with a comprehensive annual report. This is the third quarterly report for 2015, and represents audit activity during the period of July 1, 2015 to September 30, 2015. The report includes a summary of current performance, specific details on audit activities, follow-up on audit recommendations, Whistle-blower Office initiatives, operating costs, and staffing updates.

2. Summary of Current Performance

The broad objective of the City Auditor's Office is to provide independent and objective value-added assurance, advisory and investigative services. As it applies to our internal audit activities we assist Council in its oversight of City Administration, accountability for stewardship over public funds and achievement of value for money in City operations (Bylaw 30M2004, as amended). We track our success in achieving our objective on a quarterly basis through the following key performance indicators of efficiency, effectiveness, quality delivery, and staff proficiency:

#	Performance Indicator	Target	Quarterly Result	Comments
1	*Efficiency:* Progress against approved plan	Quarterly: 85% on schedule[1]	🔺	77%. Three audits originally planned to be reported on in Q3 will be reported on in Q4. One audit was initiated later in Q3 than expected due to resource constraints and will be reported on in 2016.
2	*Effectiveness*: Audit recommendations agreed to	95%	🔺	89%. Scoring impacted by Administration partially agreeing with recommendations in the Corporate Ethics Program Assessment completed by KPMG LLP.
3	*Effectiveness:* Timely follow up of audit recommendations	100%	🟢	100%. Administration reminded of all action plans due in Q3 within 5 business days of Q3 start.
4	*Quality delivery:* Results of client survey	75%	🟢	86%. Four survey responses received in Q3 (Roads Business Unit Vehicle and Equipment Management, Contract Procurement, Transportation Planning, and Exempt Employee Time Reporting).
5	*Staff proficiency:* Professional training	80%	🟢	80% of training planned for Q3 completed. Cumulatively, 88% of training planned in 2015 has been completed.
6	*Staff proficiency:* Staff retention	3 year average	🟢	3.5 yrs. During Q3, one senior auditor left The City of Calgary.

🟢 On or above target;   🔺 20% below target;   🔶 Greater than 20% below target

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[1] Annually the target is to complete draft audit reports for all planned audits by the year end.

3. Quarterly Completion of Audit Plan

Bylaw 30M2004, as amended, *City Auditor Bylaw*, established the City Auditor position and the City Auditor's Office Charter. The City Auditor's Office Charter requires the City Auditor to submit an annual risk-based audit plan for approval by the Audit Committee.

The 2015 Annual Audit Plan was approved by Audit Committee on November 6, 2014. Appendix 1 provides a detailed listing on current progress against plan as of September 30, 2015.

3.1. Audits

The following reports were presented in Audit Committee meetings during third quarter 2015.

3.1.1. Ethics Program Assessment

The City Auditor's Office 2014 Annual Audit Plan included an assessment of The City's Ethics Program (Program) as part of effective governance. The City Auditor's Office engaged KPMG LLP in August 2014 to perform this assessment. The primary objective of the assessment was to provide the City with reasonable assurance that an effective management control framework to support the Program is implemented and operating as intended.

The report includes 20 key observations and recommendations related to the City's Code of Conduct[2] and Whistle-blower Program. The report also includes responses to these recommendations from Administration and the City Auditor's Office.

KPMG noted issues in the consistency of incident processing and reporting requirements, and in the overall accountability and responsibility over the Program. They concluded that the issues identified in their assessment result from the decentralized nature under which the Program has been developed over time. KPMG recommends centralizing the model and structure of the Program through the City Manager's Office. A centralized model for the Program will establish a stronger organizational view of the Program and help address the issues noted in the report.

3.1.2. Transportation Planning Audit - Project Prioritization

The objective of this audit was to evaluate processes related to the effective prioritization of Transportation's capital projects during portfolio planning. We examined prioritization processes utilized in Transportation's 10-year capital infrastructure plan, Investing in Mobility (IIM) 2015-2024.

We determined although elements of an effective prioritization process have been implemented by Transportation Planning, a fully defined process of project prioritization is not in place. The prioritization process lacks a portfolio management plan setting out how projects are to be evaluated, prioritized, and allocated funding. Prioritization criteria in IIM focus on alignment of the transportation portfolio to The City's long-term objectives, however no assessment is performed to capture the cost-benefit ratio of projects. Transportation Planning agreed to the four recommendations and committed to action plans with implementation dates no later than April 30, 2018, prior to the next update of IIM, in 2018.

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[2] The Code of Conduct includes eight polices.

3.1.3. Contract Procurement – Request for Tenders Process Efficiency Audit

The objective of this audit was to evaluate the efficiency of the contract procurement process which supports key capital projects. The audit focused on the Request for Tender (RFT) process as it is used for the purchase of high value (greater than $200,000) or high risk goods and services when requirements and specifications require clear definition.

The audit was designed to identify process improvement opportunities to improve RFT cycle time since a streamlined RFT process ensures timely and appropriate award of contracts. Seven recommendations were raised to improve RFT cycle time in the following areas:
- Potential automation of process steps,
- Group collaboration,
- Template and guidance review,
- Expansion of cycle time tracking and monitoring, and
- Project prioritization.

Supply has agreed with the recommendations and provided commitment to implement action plans by December 2016.

3.1.4. Exempt Employee Time Reporting Audit

The audit objective was to determine if internal controls existed and operated effectively during 2014 to ensure exempt employees accurately record vacation time taken and support compliance with legal and policy requirements.

Data analysis of 2014 vacation data indicated exempt employees in general were recording vacation close to entitlements defined in policy, above legal minimums and within amounts that could reasonably expected to be earned. Furthermore, we found that a suite of controls were adequately designed to provide reasonable assurance of accurate vacation records. The operating effectiveness of individual controls varied, as many controls were people based. This variation is reflected in five instances, which were not widespread, when employees did not take a minimum amount of vacation in a manner consistent with Alberta Employment Standards during 2014, and 2013 or 2012.

Management committed to implement nine recommendations, focused on improvements to the effectiveness and efficiency of controls, with commitment dates from management no later than December 31, 2016.

3.2. Advisory

3.2.1. ESM

The City Auditor's Office provided advisory support during 3rd Quarter to the Environmental & Safety Management Policy Review Project, initiated by the Environmental & Safety Management (ESM) Business Unit. The objective of this project is to assess the effectiveness of ESM's policy administration approach, and provide recommendations to improve the use of policy as a tool to achieve environmental and health and safety outcomes. We reviewed six current ESM policies and identified opportunities and best practices for policy development and policy administration.

4.   Ongoing Recommendation Follow-up

As established in 2014, we work collaboratively with Administration to provide a continuous follow-up process which is tracked and reported on a quarterly basis. During this quarter, we followed up on 34 recommendations that were due on or before July 31, 2015. The results of our activities and the status of the remaining 10 in-progress are highlighted in the following charts.

Chart 1: Status of Recommendation Follow-up (24 of 34 recommendations closed)
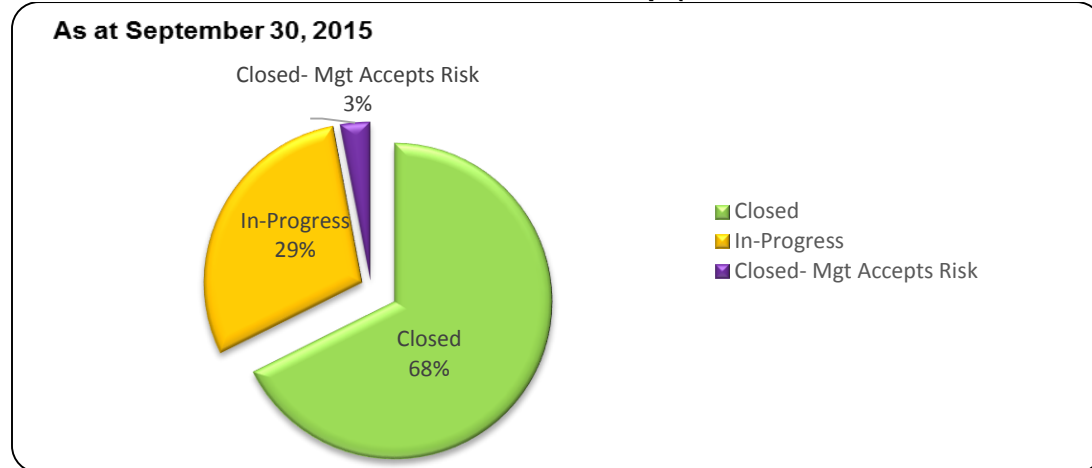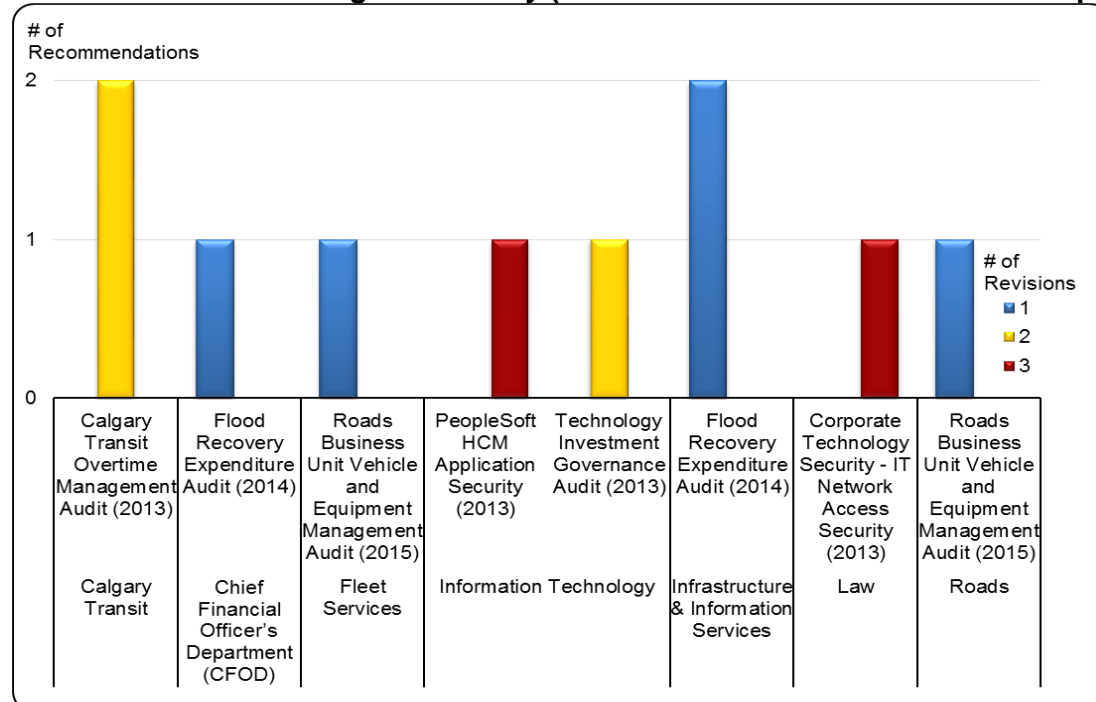

As at September 30, 2015

Closed- Mgt Accepts Risk 3%

In-Progress 29%

Closed 68%

- Closed
- In-Progress
- Closed- Mgt Accepts Risk

Chart 2: Status of In-Progress Activity (10 of 34 recommendations remain in progress)

# of Recommendations

Calgary Transit Overtime Management Audit (2013)	Flood Recovery Expenditure Audit (2014)	Roads Business Unit Vehicle and Equipment Management Audit (2015)	PeopleSoft HCM Application Security (2013)	Technology Investment Governance Audit (2013)	Flood Recovery Expenditure Audit (2014)	Corporate Technology Security - IT Network Access Security (2013)	Roads Business Unit Vehicle and Equipment Management Audit (2015)
Calgary Transit	Chief Financial Officer's Department (CFOD)	Fleet Services	Information Technology		Infrastructure & Information Services	Law	Roads

# of Revisions
- 1
- 2
- 3

The majority of follow-up activities in the third quarter resulted in 23 closures based on action plan implementation, and one closure based on Management acceptance of risk exposure. There are 10 in-progress actions that are now being tracked to revised implementation dates.

Additional commentary has been provided below on the one closed recommendation where management accepts the risk, as well as, highlighting in-progress recommendations being tracked now to a third revised date.

4.1. Closed – Management Accepts the Risk (1 in total)

A status of "Closed - Management Accepts Risk" is assigned where management has not implemented the action plan committed to in the audit report and accepts the associated risk exposure. The City Auditor's Office holds discussion with Management to re-evaluate the risk exposure to determine whether the risk acceptance is reasonable. The City Auditor's Office agreed with Management's decision to accept the residual risk for this recommendation, which was the last remaining recommendation from the Real Estate Portfolio Audit (2010).

4.2. In-Progress- Third Revised Dates (2 in total)

4.2.1. PeopleSoft Human Capital Management Application Security (2013)

The PeopleSoft Human Capital Management Application Security audit evaluated whether information within the PeopleSoft Human Capital Management (HCM) application was appropriately protected, focusing on application layer security. Action plan implementation on this recommendation related to encryption controls. Information Technology (IT) implemented encryption controls where they could be readily addressed, however, there was implementation complexity in some areas. In response, IT and Corporate Security hired a consultant to complete an Information Security Threat Risk Assessment, which covers encryption and other information security areas. The consultant's assessment is now complete. IT and Corporate Security will review the consultant's report and determine a suitable approach to address encryption controls along with other key items identified.

4.2.2. Corporate Technology Security – IT Network Access Security (2013)

The objective of the Corporate Technology Security - IT Network Access Security audit was to assess the Network Security access processes in place during 2012 for internal users. Law – Corporate Security have overseen the preparation of a draft security policy, which is now awaiting ALT approval.

4.3. Third Quarter Planned Follow-up

A total of 88 audit recommendations are being tracked as at September 30, 2015. Of these, 45 have not been included in a previous follow-up cycle and are pending and 43 have been included in a previous cycle and are in-progress. At this time there are a total of 10 recommendations with implementation dates between July 31 and September 30, 2015 scheduled for follow-up in the next quarter.

5. Whistle-blower Office

The Whistle-blower Office operates within the City Auditor's Office to support the mandate of The City of Calgary's Whistle-blower Policy and Program. The Whistle-blower Program (WBP) has operated since 2007 to ensure consistent, systematic, corporate-wide processes are in place for the prevention, detection, reporting and investigation of any suspected act of waste and/or wrongdoing.

Annually the main activities of the Whistle-blower Office are reported to Council through the Audit Committee; however, there are a number of improvement initiatives which have started in 2015. Progress on these key initiatives will be included as part of the quarterly reporting to Audit Committee to support overall awareness of the Whistle-blower Office activity.

#	Initiative	Status	Planned Completion Date
1	Development of WBP decision making process for communication to key internal stakeholders.	Completed – September 2015	3rd Quarter
2	Development of an investigation reference package to be utilized by Administration where their assistance is required.	Completed – July 2015	3rd Quarter
3	Revision of internal communication letters to highlight action and expectations specific to the initiation of an investigation and referrals to management.	Completed – June, 2015	3rd Quarter
4	Enhancement to WBP website to include requirements in raising a whistle-blower report, and additional clarity on actions taken by the WBP.	Not started	4th Quarter
5	Revisions to the WBP procedures manual.	In progress	4th Quarter
6	Development and delivery of trending reports for Administration and Council.	Not started	4th Quarter

6. Budget Management

The City Auditor's Office strives to provide the highest level of independent and objective value add assurance, advisory and investigative services within budgetary expectations. Budget, actual and forecast comments as of September 30, 2015 are provided on the following page.

City Auditor's Office Operating Costs ($'000's)

	2015 Annual Budget	3rd Quarter Budget	Actual 2015/09/30	Variance	Comments
Salary	$2,256	$1,686	$1,504	$182	Variance due to 2 Senior Auditor vacancies.
Contracts	$50	$50	$67	($17)	
Training	$36	$27	$29	($2)	
Other	$118	$89	$107	($18)	
Total	**$2,460**	**$1,852**	**$1,707**	**$145**	Most of the variance is anticipated to be utilized towards contract auditors and/or data analytic services in Q4.

7.   Professional Staffing and Initiatives

7.1.   Professional Training

The foundation of the City Auditor's Office (CAO) is the professional skills and knowledge of the staff. To run effective audits, advisory projects and investigations a range of complimentary designations enhances the team's effectiveness. The value of the team is in the mix of designations, knowledge and experience held to provide effective advice and guidance. The CAO is committed to supporting the ongoing professional development of its staff members.

During Q3, the CAO has been organizing a regional training event in conjunction with the Association of Local Government Auditors (ALGA), which will take place during the first week of October. The first day will focus on the development of risk based audit plans, while the second day will be covering data analytics in audit. Organizing the event provides value for money training opportunities for CAO auditors, as well as creating networking opportunities with other public sector and not-for-profit auditors.

7.2.   Recruitment

The CAO has initiated a recruitment process in order to ensure sufficient audit resources are in place for 2016. An external search firm is being utilized to generate the widest possible pool of qualified Senior Auditor candidates. The opportunity has been advertised both through the Institute of Internal Auditors and ALGA.

7.3.   Whistle-blower Program (WBP) Investigation Processes

All whistle-blower reports are assessed through triage and appropriately investigated. In some cases the WBP triage team determines that management is best to address the report. In July 2015, the Whistle-blower Office provided a presentation to the Administrative Leadership Team on additional guidelines and reference material to support their role in WBP Investigations. The information provided included a high level summary of the decision making process (decision tree), copies of sample referral letters, Investigative Guidelines, Interview Tips and Management Investigation Report Template.

7.4. 2013 Quality Assessment Review Recommendation Follow Up

Schedule C to Bylaw 48M2012 requires Audit Committee to ensure that City Auditor's Office (CAO) undergoes a Quality Assessment review (QAR), as prescribed by the Institute of Internal Auditors (IIA) at least every five years. A QAR was conducted in 2013 by Honkamp Kreuger & Co., resulting in a rating of "conforms" (the highest rating awarded). Although this rating indicates the CAO is in conformance to IIA International Standards for the Professional Practice of Internal Auditing (Standards), the assessment raised three recommendations to further enhance conformance with IIA Standards, and six recommendations which were described as "innovative practice suggestions for consideration".

The CAO has worked at addressing these recommendations, and based on self-assessment now consider these recommendations actioned and closed, as summarized in Appendix 2. Preparation is now underway for the Office's next QAR, which will be scheduled for 2017.

APPENDIX 1
2015 Annual Audit Plan – Status as of September 30, 2015

2015 Annual Audit Plan				
#	Title	Description	Report Target	Status
2014 In-Progress				
1	Corporate Ethics Program Assessment (AC2015-0560)	Complete an assessment of The City's Corporate Ethics Program as part of effective governance. Bylaw 48M2012 requires the Audit Committee to monitor the adequacy and effectiveness of corporate policies including code of conduct and conflict of interest.	Q1	Complete - Reported July
2	Roads Business Unit Vehicle Asset Control (AC2015-0450)	Complete an audit of systems and processes in place to manage timely maintenance and cost of vehicles utilized in the Roads Business Unit.	Q1	Complete - Reported May
3	Sewer Capacity Management Processes (AC2015-0146)	Complete an audit of The City's processes to manage sewer capacity risk.	Q1	Complete - Reported March
4	Virtual Desktop Information Technology (AC2015-0205)	Complete an audit of The City's virtual desktop Information Technology. This audit will further examine City's initiatives to utilize virtual technology to support the achievement of Tomorrow's Workplace initiative.	Q1	Complete - Reported February
5	Expense Review (Council Directed – NM2014-37) (PFC2015-0077)	Complete a review of both current policies regarding use of alcohol during work hours and expensing of alcohol for all city employees, and in that analysis consider other leading best practices.	Q1	Complete - Reported January
Audit Committee/City Council Directed				
6	Whistle-blower Investigations	Policy CC026, *Whistle-blower Policy* directs the City Auditor to ensure reports received through the City's Whistle-blower program are	Q1	Ongoing

		2015 Annual Audit Plan		
#	Title	Description	Report Target	Status
		investigated, tracked and appropriately resolved. Summary of activities is reported in first quarter of the following year.		
7	2016 Annual Audit Plan	City Auditor's Office Charter requires the City Auditor to prepare an Annual Risk Based Audit Plan for approval by Audit Committee.	Q4	Planning
	Risk Assessed Priority			
8	Recommendation Follow-up	Ongoing follow-up on the status of management's action plans to address City Auditor recommendations. Results reported as part of City Auditors Quarterly Status Report.	Quarterly	Ongoing
9	Transportation Planning (AC2015-0561)	An audit examining effective prioritization of projects, which may include efficient utilization of consultant and external analysis.	Q3	Complete - Reported July
10	Freedom of Information and Privacy (FOIP) Workflow Process	An audit evaluating the cost efficiency and process effectiveness of the FOIP response workflow.	Q4	Reporting
11	Calgary Housing Company	An audit on effective asset management processes, and utilization of housing units.	Q4	Reporting
12	Exempt Employee Time Reporting (AC2015-0708)	An audit using data analytics to assess effectiveness of computer and manual tools to support accurate exception time reporting for exempt employees.	Q3	Complete – Reported September
13	Contract Procurement Process (AC2015-0558)	A horizontal audit to evaluate factors impacting timeliness of the contract procurement process.	Q3	Complete - Reported July
14	Rocky Ridge Recreation Centre	A project management audit of the capital construction project to build the Rocky Ridge recreation centre.	Q1 2016	Fieldwork

15	New Calgary Central Library	An ongoing project management audit on the capital construction of the new Calgary Central Library.	Q4	Reporting
16	Attainable Homes Calgary Corporation	An audit assessing the effectiveness of the process to acquire and develop units that supports the mandate of Attainable Homes.	Q1 2016	Planning
	City Auditor Office Initiatives			
17	Audit Committee Orientation	The City Auditor supported an Audit Committee Orientation session for all members of Council in January 2015.		
18	Quality Assessment Improvement Program	During Q3, opportunities for improvement identified through the file reviews completed in Q1 and Q2 were discussed and implemented, and a further file review was completed. A follow up of recommendations raised in the 2013 QAR was completed (see Appendix 2). Annual reviews of audit process will take place in Q4.		
19	Audit Software Tools	A system version upgrade to ACL (data analytics software) and TeamMate (audit software) were completed in Q1 and Q2 with support from The City's IT Business Unit.		
20	Training and Development Guidance	Staff annual training plans have been developed as part of individual 2015 objectives. Development of an Office competency based training program and support tools is planned for Q4.		

APPENDIX 2
QAR Recommendation Follow Up

2013 Observation	2013 Recommendation	2013 City Auditor's Office Response	2015 Update
Opportunities to Improve Conformity with IIA Standards			
1. Periodically review, update, and approve the Charter • *Standard* 1000 - The purpose, authority, and responsibility of the internal audit activity must be formally defined in the internal audit charter, consistent with the Definition of Internal Auditing, the Code of Ethics, and the *Standards*. The CAE must periodically review the internal audit charter and present it to senior management and the board for approval. • *Standard* 1000.A1 – The nature of assurance services provided in the organization must be defined in the internal audit charter. • *Standard* 1000.C1 – The nature of consulting services must be defined in the internal audit charter. • *Standard* 1010 - The mandatory nature of the Definition of	The CAO Charter must be reviewed periodically and presented to the Audit Committee for approval. CAO Manual should be revised to reflect that the CAO Charter is to be reviewed by CAO and approved by the AC on a periodic basis. In our opinion, we believe the review should be conducted annually. In updating the Charter, attention should be given to more clearly define the CAO's roles and responsibilities in regards to the nature of assurance, consulting, and oversight of wholly owned subsidiaries and related entities. Finally, the Charter should recognize the Definition of Internal Auditing, the Code of Ethics, and the *Standards*.	Agree. Bylaw 30M2004 serves as the City Auditor's Office Charter. A review and update of the bylaw is part of the 2013 Annual Audit Plan. This review will be completed in 2013. We will include the following specific areas for Council's consideration when updating the Bylaw: 1) Addition of a periodic review of the Bylaw (perhaps coincide with the review of the Audit Committee Bylaw which is "at least every three years"). 2) Enhanced definition of assurance and advisory services. 3) Enhanced clarification of the mandate as it relates to wholly owned subsidiaries and related entities.	**Complete – recommendation addressed** Review and update of Bylaw 30M2004 approved by Council January 2014. City Auditor's Office Charter created and approved along-side the Bylaw by Council. The Charter notes that Bylaw and Charter will be reviewed periodically. The City Auditor's Office will review the documentation as part of the annual QAIP process. Updates will be presented to Council for approval if required.

2013 Observation	2013 Recommendation	2013 City Auditor's Office Response	2015 Update
Internal Auditing, the Code of Ethics, and the *Standards* must be recognized in the internal audit charter. Bylaw 30M2004 established the CAO in 2004. There have not been any subsequent documented reviews or updates to the document since 2004. A review of the Bylaw is set for 2013 in response to the establishment of an AC Bylaw in 2012.

Differing viewpoints were noted regarding CAO's responsibility for overseeing the activities of the wholly owned subsidiaries.

The Bylaw generally describes the CAO's responsibility for performing consulting and advisory services. Lack of a defined process for how this is to be applied, along with lack of guidance from the AC, has resulted in a different view as to how the CAO can accomplish consulting and advisory services.

The Bylaw does not recognize the Definition of Internal Auditing, the | | 4) Addition of the requirement to adhere to the Definition, Code of Ethics, and Standards as outlined in the International Standards for the Professional Practice of Internal Auditing. | |

2013 Observation	2013 Recommendation	2013 City Auditor's Office Response	2015 Update
Code of Ethics, and the *Standards*.			
2. Evaluate the organization's ethics related programs • *Standard* 2110.A1: The internal audit activity must evaluate the design, implementation, and effectiveness of the organization's ethics-related objectives, programs, and activities. CAO has not conducted nor does it have in their audit universe the organization's ethics-related objectives, programs, and activities. A component of the City's management of ethics is the Whistle Blower Program, which currently reports to the CAE. As a result, the CAO would have an independence issue with any audit of the ethics program for the City.	The City's ethics-related objectives, programs, and activities should be considered in the scope of the work for the CAO. When this audit is conducted, we recommend it is completed by an outside party due to the current independence issue with the Whistle Blower Program.	Agree. Evaluation of The City's Ethics related programs and activities has been added to the CAO's Audit Universe. The evaluation will be considered as part of the 2014 and subsequent years Annual Audit Plan risk assessment. We agree that as the party responsible to operate The City's Whistle-Blower Program, the CAO could not independently assess the operation of the program. One alternative, as suggested, will be to engage an outside party to complete this evaluation. Options to address this conflict would be explored and discussed with the Audit Committee once the evaluation of The City's Ethics programs has been approved as part of the Annual Audit Plan.	**Complete – recommendation addressed** Evaluation of The City's Ethics related programs was conducted by KPMG. The report was shared with ALT in draft form in June 2015 then the final report was presented at July 16, 2015 Audit Committee. (AC2015-0560). Follow up on recommendations will be conducted by the City Auditor's Office as part of their current practices.

2013 Observation	2013 Recommendation	2013 City Auditor's Office Response	2015 Update
3. Ensure reports are clear, concise, and timely, including formalizing an interim reporting process • *Standard* 2420 (Quality of Communications) Communications must be accurate, objective, clear, concise, constructive, complete, and timely. Management believes the reports issued by CAO are professional, relevant, and comprehensive based on comments from interviews and survey results. The comprehensive nature of the report may have unintended consequences, including increasing the risk that the intended message and focus of the communication is lost in the level of detail being provided. CAO audit engagements lasted seven months from kick-off to report issuance on average in 2012. The CAO provides the AC monthly and quarterly updates at "in camera" sessions but does not always document the updates in	CAO should require that all issues raised with senior management and the AC are documented in the work papers. Parameters should also be established and communicated with the client as to what constitutes a "significant" finding. In addition, CAO should challenge itself to look for ways to improve the clarity and conciseness of its audit reports to ensure the primary message of the report is universally understood. This could be accomplished in part by summarizing like/type issues into one observation.	Agree. All actions, including in-camera discussions, related to our audits should be recorded in the audit file. A procedure will be developed and inserted into the CAO's Office Manual in 2013. Our procedure is to disclose ALL audit observations to the client and report the significant opportunities for improvement in the formal audit report. Parameters to assist Auditors to discuss these differences with the client will be added to the CAO's Office Manual in 2013. The content of each report is carefully considered given the knowledge level of the reader, as well as the level of understanding and acceptance of an observation by the auditee, Our primary driver is to have clear and appropriate communication of significant issues to Audit Committee and Council to support their oversight of The City. We will continue to leverage	**Complete – recommendation addressed** We continue to challenge ourselves in delivering clear, concise, and timely reports as part of our continuous improvement process. The report format was reviewed in Q4 2014 and revised for 2015 audits. Further review and revisions will be made as appropriate.

2013 Observation	2013 Recommendation	2013 City Auditor's Office Response	2015 Update
the work papers. There is a process in place for escalating significant issues to senior management of the business function under review, however, the process does not ensure the escalation occurs, is not documented in all cases, nor does it define when an issue is to be considered significant.		learnings from past reports to continuously improve our communication for future reports.	
Innovative Practice Suggestions for Consideration by Internal Audit			
1. Internal Audit Competency Model The CAO demonstrated that individual position competency levels are considered in its short and long range planning efforts as position descriptions were provided for our review. A formalized, departmental level Competency Model has, however, not been prepared. An articulated up-to-date departmental level model helps ensure that all necessary skills, required to accomplish its mission, have been identified and that CAO management is continuously	The CAE should consider developing a departmental level Competency Model to clearly articulate the skill-sets and professional knowledge required to adequately carry out the group's mission and satisfy the expectations of its stakeholders.	Agree. The establishment of a formalized competency model for the City Auditor's Office staff will further enhance the current Performance and Career Development process. The Institute of Internal Auditors is currently updating the competency framework for Internal Audit Professionals. The City of Calgary also has a competency framework for management exempt staff. These competency frameworks will be considered as part of the	**Complete – recommendation addressed** Competency model developed Q3 - Q4 2013. The model has been used for self-assessment by staff as part of the annual performance process. In keeping with the City Auditor's Office focus on continuous improvement, the model will be further utilized in Q4 2015 by the development of a competency based training program and support tools as detailed in the 2015 Annual Audit Plan.

2013 Observation	2013 Recommendation	2013 City Auditor's Office Response	2015 Update
considering steps to ensure that those skills are available or are being developed. Most internal audit activities need skill-sets in the disciplines of finance, accounting, auditing, project management and IT to properly accomplish their mission and business objectives. Where appropriate, these skill-sets are also typically recognized by other areas of an organization as valuable for future personnel development and rotation.		development of the CAO Competency Framework. Development of the Competency Framework will be completed in 2013 to support the development of Staff 2014 Performance and Career Development Plans.	
2. IIA's QA&IP Practice Guides The IIA has issued two Practice Guides to assist CAEs with developing QA&IPs: • "Measuring Internal Audit Effectiveness" and, • "Quality Assurance and Improvement Program" • The Practice Guides provide a framework that includes general concepts such as stakeholder satisfaction, key audit processes, audit staff capabilities, and technological innovation to	CAO should enhance the QA&IP by considering the techniques outlined in the IIA Practice Guides. The resulting program should be tailored to fit the situation, involve all members of CAO, and help provide assurance that CAO is following its own policies and procedures, while meeting the expectations of senior management and the Audit Committee as it maintains general conformity with The IIA *Standards* and Code of Ethics. Components of the QA&IP should	Agree. The development of a Quality Assurance and Improvement Program will be completed in 2013. The Program will be added to the CAO's Office Manual and will include periodic internal reviews to confirm adherence with the *Standards*, as well as formalize the requirement for External Assessments every five years.	**Complete – recommendation addressed** A formal QAIP framework has been developed in 2014, and is documented in the Office Manual. Updates on the QAIP are provided to Audit Committee as part of the quarterly reporting on the Annual Audit Plan (see Appendix 1).

2013 Observation	2013 Recommendation	2013 City Auditor's Office Response	2015 Update
create a robust, right-sized QA&IP program, including follow through reporting, to meet the specific needs of an internal audit activity.	consider stakeholder satisfaction, key audit processes, staff capabilities, and technological innovation, while bringing focus on managing and improving all CAO processes.		
3. Multi-year Audit Plan The CAO conducts an annual comprehensive risk assessment of the audit universe, which is used as the basis for determining the auditable units to be included in the annual audit plan. The 2012 risk assessment categorized 22 audit units as high risk areas of the 100+ auditable units identified. Currently, the CAO is averaging completion of 9 audits annually. If all of the audits are focused on high risk audit units, it would take 2 ½ years to audit them all. The annual audit plan is then presented for approval to the AC. The CAO has recently included a list of all high risk items to provide the AC exposure to the risks that are not included in the plan. This approach does not allow the AC visibility into the overall universe	The CAO should continue to perform periodic risk assessments of the audit universe, which we recommend should be conducted at a minimum annually, as it is currently, but also after any significant organizational changes occur. The risk assessment should then be utilized to develop a multi-year audit plan which is provided to the AC for review and approval. After each risk assessment, the audit plan should be re-evaluated for any changes needed and approved by the AC. The audit plan should take into consideration low and medium risks that may need to be considered for inclusion in the plan, and it should provide the AC visibility into all of the audit units that are not intended to be	Agree. The City Auditor presents Annual Audit Plans for Audit Committee approval as required in Bylaw 30M2004. The City Auditor will discuss opportunities to, where desired, enhance Audit Committee's understanding of the City Auditor's Office Audit Universe in 2013. Any enhancements will be documented in the CAO's Office Manual and be implemented as part of the 2014 Annual Audit Plan presentation.	**Complete – recommendation addressed** We continue to refine our annual audit planning process to ensure that we deliver audits that provide value. Our planning process has taken the feedback received by the QAR review into consideration. Recent enhancements to the annual audit planning process include: - The use of audit themes to refine risk assessments; - Creation of a four year road map of audits; and - Coordination with Administration's ZBR program. In Q4 2015, the City Auditor will present to Audit Committee a two year audit plan for approval,

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of risks, provide the AC with assurance that a plan is in place to address risks not included in the current annual audit plan, nor facilitate coverage of non-high risk auditable units.	covered through the multi-year plan.		covering 2016 and 2017.
4. Staffing Analysis The process of determining staffing levels for CAO is one of best judgment. CAO has not performed a staffing analysis based on the annual risk assessment. The lack of a staffing analysis may limit senior management and the AC's ability to make a judgment on resource adequacy. Innovative audit departments determine appropriate staffing levels by analyzing the comprehensive risk based audit universe and their current coverage of the risks. This approach provides oversight committees a basis for making more informed judgments on the reasonability of existing staffing levels.	The CAE should consider performing a staffing analysis based on the risk assessment of the audit universe and present the results to the AC to help validate the staffing needs. The analysis can clearly demonstrate audit areas (risks) that are intentionally excluded from or delayed in the proposed audit plans because of resource limitations. Such data will afford the AC the opportunity to enhance their oversight of CAO.	Agree. This practice is already in place and functioning. The City Auditor provides Audit Committee information about the knowledge and experience of the Audit Staff as an in-camera item when the Audit Plan is being considered. Based on the outcome of discussions with the Audit Committee (as committed in Innovative Practice Suggestion #3 - Multi-year Audit Plan above) a discussion regarding adequacy of resourcing may arise and be conducted if desired. Previous staff adequacy discussions have included comparisons with other municipalities as well as Quebec legislative requirements. The CAO also maintains funding within its budget to enable the	**Will not be implemented – addressed through alternative practices** The current annual planning process takes into account the level of resources, and existing skills and competencies within the City Auditor's Office, and where additional specialist knowledge is required, budget is utilized to hire subject matter experts.

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		Office to hire subject matter experts if required to appropriately evaluate specialized risk areas. This practice, and any resulting additions, will be added to the CAO's Office Manual in 2013.	
5. Staff Assignments The CAE assigns audit resources to projects for a myriad of reasons; however, the rationale for assigning auditors to an engagement is not currently being documented. In determining the appropriateness and sufficiency of resources, CAO management should document the rationale used in making the assignment which should take into account: • Number of auditors and their experience level • Knowledge, skills and other competencies of the auditors • Availability of subject matter experts where additional knowledge and competencies are required • Training needs of internal auditors in order to support	The CAE should establish a written policy in the CAO Manual requiring that the rationale for assigning auditors to an engagement be documented in the planning section of the work papers.	Agree. The CAO's Manual currently indicates it is the City Auditor's responsibility to assign resources. Explanation of factors the City Auditor considers to make appropriate staff assignment decisions will be added in 2013. The documentation of the "assignment rationale" will be added to the Audit Project File templates in 2013. This will ensure that the information becomes part of the Audit File documentation.	**Complete – recommendation addressed** The audit initiation process includes the documentation of appropriateness and sufficiency of resources assigned.

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meeting the department's developmental needs and/or goals			
6. Audit Manual Policies and Procedures CAO does not have written policies that describe what actions are required when one or more of the events listed below take place. The likelihood of one of these events occurring is rare, which is why it is important to develop action plans in advance and communicate the plans to CAO management and staff, as well as to senior management and the AC. • Disclosure of nonconformance with the Code of Ethics (*Standard* 1322) • Errors and omissions in audit communications (*Standard* 2421) • Engagement disclosure of nonconformance with IIA *Standards* (*Standard* 2431) • Resolution of Senior Management's Acceptance of Risk(s) (*Standard* 2600)	The CAE should develop policies that describe in detail the actions that will be taken in the unlikely event that any of the activities noted occur. The CAO should consider publishing the policy related to the Resolution of Senior Management's Acceptance of Risk(s) to senior management. This could be performed through providing this policy either on the CAO website or within the engagement opening conference materials.	Agree. Procedures will be developed to outline how each of the identified areas will be acted upon. The Resolution of Senior Management's Acceptance of Risk(s) will be considered as part of the City Auditor's Bylaw review. This issue is of sufficient importance that, although highly unlikely, the expectation of Council to have the City Auditor take specific action in these circumstances may warrant inclusion in the Bylaw. This would address the need to communicate the requirement to management.	**Complete – recommendation addressed** Procedures have been included in the Office Manual.