

## Annual Control Environment Assessment Audit

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### EXECUTIVE SUMMARY

The City Auditor's Office issued the Annual Control Environment Assessment Audit Report to Administration on February 20, 2019, reflecting an audit focused on the design effectiveness of the 2018 Control Environment Assessment, and the operating effectiveness of specific controls listed in the Assessment under COSO Principle Three, Establish Structure, Authority, and Responsibility. Three recommendations were raised to provide greater transparency to Audit Committee on control definitions, as well as introducing a system of control oversight utilizing demonstrable controls. Finance agreed with the main recommendation, to define and communicate the type and level of controls, with a commitment to provide a proposal and complete consultation with Audit Committee by September 30, 2019. Decisions resulting from Finance's proposal will guide implementation of the remaining two recommendations relating to controls oversight and demonstrable controls to which Finance have provided partial agreement. The City Auditor's Office will track the implementation of these commitments as part of our ongoing follow-up process.

### RECOMMENDATIONS

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

### PREVIOUS COUNCIL DIRECTION / POLICY

Bylaw 30M2004 (as amended) established the position of City Auditor and the powers, duties and functions of the position. Under the City Auditor's Office Charter, the City Auditor presents an annual risk-based audit plan to Audit Committee for approval. The City Auditor's Office 2017/18 plan was approved on 10 November 2016. The City Auditor is accountable to Council and subject to the oversight of Audit Committee under Bylaw 48M2012 (as amended).

### BACKGROUND

Annually, since 2004, Finance has presented a Control Environment Assessment (Assessment) and Management Representation Update report to Audit Committee. Finance base the Control Environment Assessment (Assessment) on the Committee of Sponsoring Organizations of Treadway Commission (COSO). COSO states each of the five Components of internal controls and relevant 17 Principles should be present and functioning to create an effective system of internal controls. This Assessment supports the Audit Committee's Terms of Reference (Bylaw 48M2012), which states that the Committee is responsible to "oversee(s) the integrity of The City's system of internal controls, legal and regulatory compliance regarding financial matters, Codes of Conduct, and other policies, as determined by the Audit Committee".

The objectives of the audit were to assess the effectiveness of the overall design of the Assessment, and to assess the operating effectiveness of specific controls listed in the 2018 Assessment under COSO Principle Three, "Establishes Structure, Authority, and Responsibility".

### INVESTIGATION: ALTERNATIVES AND ANALYSIS

We reviewed the purpose of the Assessment, and the process by which the Assessment is compiled. Finance have established a series of activities that support the annual compilation of the Assessment, based on a network of control contributors across Administration, and the

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utilization of the COSO internal control framework. In reviewing the purpose of the Assessment, we identified transparency regarding the level of assurance being provided to Audit Committee should be improved by the inclusion of a type definition (financial, non-financial) and level definition (entity wide, or Business Unit level) of control included within the Assessment. In assessing the operating effectiveness of controls listed under Principle Three, we confirmed that five out of the six controls described were present and functioning. The remaining control, specific to defined delegations structures, could not be confirmed as operating effectively, and control improvement opportunities were not disclosed through the Assessment compilation process. We recommended that Finance introduce a system of control oversight (control ownership and associated Director level approval of information provided to Finance) and refine information in the Assessment to include only demonstrable controls.

### **Stakeholder Engagement, Research and Communication**

This audit was conducted with Finance acting as the principal audit contact within Administration.

### **Strategic Alignment**

Audit reports assist Council in its oversight of the City Manager's administration and accountability for stewardship over public funds and achievement on value for money in City operations.

### **Social, Environmental, Economic (External)**

N/A

### **Financial Capacity**

#### **Current and Future Operating Budget**

N/A

#### **Current and Future Capital Budget**

N/A

### **Risk Assessment**

The activities of the City Auditor's Office serve to promote accountability, mitigate risk, and support an effective governance structure. This audit was undertaken as part of the approved City Auditor's Office 2017/2018 Annual Audit Plan. The proposed recommendations will promote individual responsibility and collective accountability for a robust system of internal control and are expected to improve the efficiency of the production of the Assessment. As a result, this value-add deliverable can be provided to Audit Committee utilizing City resources in the most effective way possible.

### **REASON FOR RECOMMENDATIONS**

Bylaw 48M2012 (as amended) states: "Audit Committee receives directly from the City Auditor any individual audit report and forwards these to Council for information."

### **ATTACHMENT**

Annual Control Environment Assessment Audit - AC2019-0214 ATT