

**City of Ottawa
Office of the Auditor General Quality Assurance
Review
Final Report March 23, 2012**

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Executive Summary

Introduction

In 2004, the City of Ottawa (the “City”) established a framework which resulted in the creation of an Auditor General (AG) position for the City of Ottawa. This framework consisted of a Statute and Mandate as well as a By-Law, and required that the Auditor General report to City Council via the Corporate Services and Economic Development Committee. In response to an increased focus on effective governance, the Audit Sub-Committee (ASC) in conjunction with the City Manager, secured an external quality assurance review (QAR) of the OAG operations. This report is a summary of PricewaterhouseCoopers LLP (PwC’s) findings and recommendations following completion of the QAR.

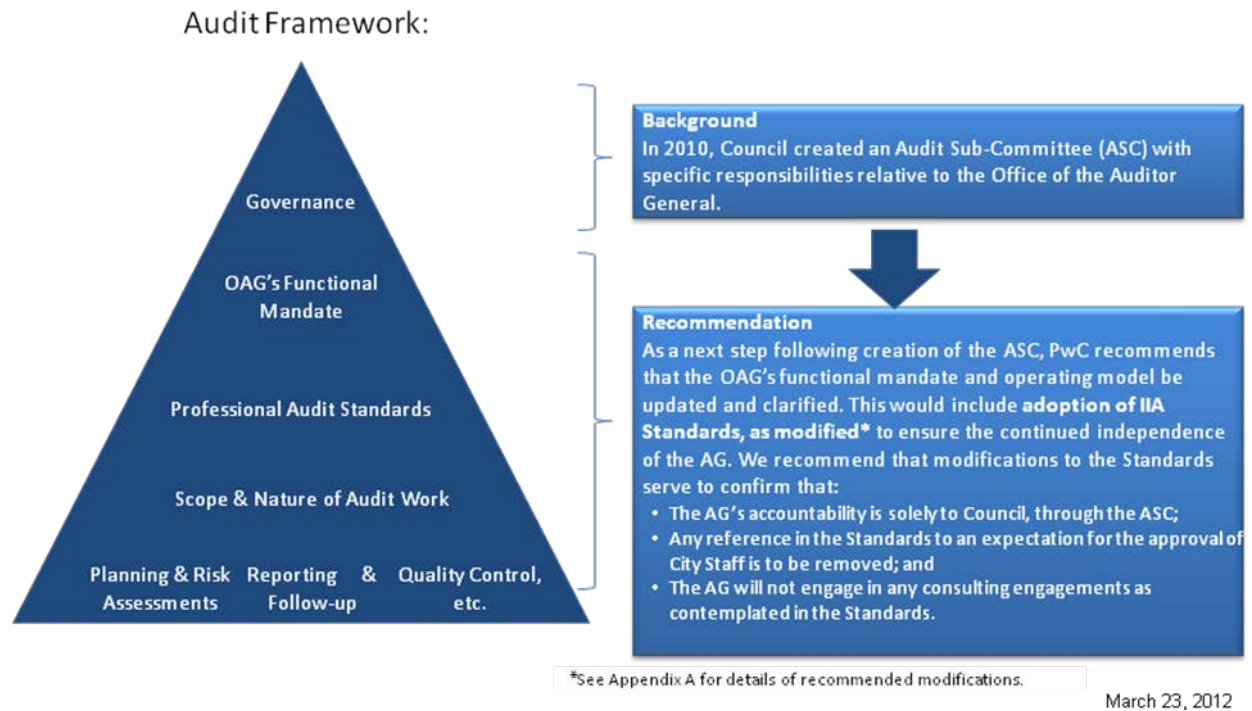
Objectives of the Quality Assurance Review (QAR)

The objectives of the QAR were as follows:

1. Assess the OAG against the duties and other requirements established within the Statute, Mandate and By-Law which originally created the position of Auditor General in 2004
2. Identify opportunities, offer recommendations for improvement and provide counsel to the Auditor General and his Staff for improving the effectiveness and efficiency of the OAG
3. Identify and map those additional activities or other changes, if any, that would be required to support the OAG’s conformance with the Institute of Internal Auditors (IIA) Auditing Standards*

* With the creation of the Audit Sub-Committee (ASC), PwC identified an over-arching need to modernize the City’s Audit Framework. This includes our recommendation that the OAG adopt a modified version of IIA Standards.

Priority Recommendation



Results of the Quality Assurance Review

This summarizes the results of the QAR relative to each of the engagement objectives:

QAR Objective #1: Assessment Against Current Statute, Mandate and By-Law

The OAG was found to **Conform** with the eight key criteria as established within Bylaw 2009-323, Part V.1 of the Municipal Act and the AG's Mandate. As noted earlier, PwC recommends that the OAG's Functional Mandate and Operating Model be updated and clarified.

QAR Objective #2: Opportunities and Recommendations for Improvement

As noted earlier, PwC recommends that the OAG adopt a modified version of IIA Standards. In our view, adoption of these Standards will address a number of opportunities to improve the efficiency and effectiveness of the OAG, including those related to the following processes:

- Annual Audit Planning
- Fact Validation
- Audit Reporting

QAR Objective #3 Conformance with modified* Institute of Internal Auditor (IIA) Standards

*See Appendix A for details of recommended modifications

The PwC review team grouped the modified IIA Standards (the Standards) into various thematic areas. While the OAG is not required to follow the Standards, our procedures indicated general conformance with a number of the Standards recommended for adoption, including those relating to Independence and Objectivity, Proficiency & Due Professional Care, and Continuing Professional Development.

Six thematic areas were identified where adjustments to the OAG's current operating model are required to reflect the modified Standards. While the nature and extent of required adjustments varies, it will be important that plans to make such adjustments are sufficiently detailed, complete and subject to active oversight by the ASC.

Areas of the Standards where General Conformance not Demonstrated	Path to General Conformance - Highlights
Purpose, Authority and Responsibility	Update the AG's mandate to encompass specific expectations of the ASC and report periodically to the ASC on same.
Quality Assurance and Improvement Program	Formalize a Quality Assurance & Improvement Program for ASC's approval.
Annual Audit Planning	Enhance communication of Audit Plans and resource requirements for Council approval and document linkages between the Plan and the City's goals, risks and risk appetite.
Engagement Planning	Ensure consistent documentation of relevant risks as well as documentation of objectives, scope, timing and criteria for all audits.
Quality Control	Ensure evidence of supervision and review on all engagement work programs, summary working papers and draft reports.
Communicating Results	Tailor audit reports to include an overall conclusion/opinion, and ensure all reports are appropriately concise and constructive.

Approach to the QAR

In completing the QAR, PwC conducted the following procedures:

1. Reviewed relevant documentation as provided by the OAG.
2. Conducted interviews with the following individuals:
 - a. Mayor's Chief of Staff;
 - b. Four Councillors on Audit Sub-Committee (Chiarelli, Hubley, Egli, Bloess)
 - c. Auditor General, Deputy Auditor Generals and two (2) Senior Auditors;
 - d. Five Executives: Kent Kirkpatrick, Marian Simulik, Rick O'Connor Steve Kanellakos and Nancy Schepers; and
 - e. Other interviewees: David Saint/Mary Gracie (together) and Glen Ford (with Marian S)
3. Reviewed six (6) audit working paper files associated with audits completed since 2009.

Results – Objective #1: Conformance with the Statute, Mandate and By-Law

Criteria: Requirements associated with Bylaw 2009-323, the Part V.1 of the Municipal Act and the OAG Mandate*.

Conclusion: The OAG was found to Generally Conform with the eight key criteria as established within the Bylaw, Statute and Mandate.

Key Criteria	Summary of Findings relative to the Requirements	Assessment of Conformance
General Requirement for the Position and Office	<ul style="list-style-type: none"> • AG is a designated accountant • The position was appointed by 2/3 approval of full Council, non renewable term of 10 years • The AG has established an OAG, managerial hierarchy, administrative policies and procedures • The AG has acted within authority to appoint, promote, dismiss, and review the performance of OAG employees • The AG has retained services of individuals and corporations for operations of the OAG subject to the City's Purchasing By-law 	Conforms
Independence of the Auditor General	<ul style="list-style-type: none"> • The AG has remained independent of City administration with sole responsibility over the OAG • The AG has reported directly to Council or Committee of Council • The OAG has operated within fixed percentage of City's operating budget as set by Council 	Conforms
Duties of the Auditor General	<ul style="list-style-type: none"> • The AG has carried out financial audits, compliance audits, and performance audits on accounts and affairs of the City 	Conforms

Key Criteria	Summary of Findings relative to the Requirements	Assessment of Conformance
	<ul style="list-style-type: none"> • Has conducted audits using established protocols and procedures, at such time and to the extent considered appropriate by AG • Has assisted City Council in holding itself and its administrators accountable for the quality of stewardship over public funds and the achievement of value for money in municipal operations 	
Fraud and Waste Hotline	<ul style="list-style-type: none"> • AG has fulfilled responsibilities for administration of the Fraud and Waste Hotline relating to any suspected acts of fraud, theft, misappropriation or other similar irregularities • Has established protocols and procedures necessary for the conduct of related investigations 	Conforms
Access to Records and Personnel	AG has maintained unrestricted access to all information, books, accounts, financial records, electronic data processing records, reports, and files used by the City, local boards, municipally controlled corporations, and grant recipients.	Conforms
Work Plan	<ul style="list-style-type: none"> • AG has submitted an annual work plan to Council 	Conforms

Key Criteria	Summary of Findings relative to the Requirements	Assessment of Conformance
	<ul style="list-style-type: none"> • Audited and report on other matters outside the work plan as requested by Council • Submitted a longer term work plan at his discretion 	
Reporting by the Auditor General	<ul style="list-style-type: none"> • AG has provided an annual report to Council each year reporting on the previous year's activities no later than December 31 of the next year following the tabling of the audit plan • Reported to Council on a more frequent basis at his discretion 	Conforms
Indemnity and Confidentiality	<ul style="list-style-type: none"> • AG has ensured that OAG have not been persecuted by reason of an act they have done or failed to do in good faith in the performance of their work or been compelled, without benefit of a subpoena, to give testimony relating to information obtained in the performance of their duties • Ensured that OAG complied with their duty of confidentiality outlined in Section 223.22 of the Municipal Act, 2001, S. 2001, c.25 	Conforms

Results – Objective #2: Opportunities regarding Efficiency and Effectiveness

Our key recommendation, as described in the executive summary, is that the OAG adopt IIA Standards, as modified to ensure an appropriate independence of the AG and consistency with the ASC's Terms of Reference. In our view, adoption of these Standards will address a number of opportunities to enhance the efficiency and effectiveness of the OAG.

PwC has identified the following three processes whereby the adoption of modified IIA Standards would serve to promote the OAG's efficiency and effectiveness:

1. Annual Audit Planning
2. Fact Validation
3. Audit Reporting

1. Annual Audit Planning

Opportunities:

When developing the annual audit work plan, we suggest the OAG:

- Look for opportunities to enhance collaboration with key stakeholders, including Councillors, senior City Staff, and relevant functions/groups (e.g. the compliance group, ERM function) within the City
- Review recent risk assessment results and related risk management policies/procedures
- Enhance description of proposed audit objectives and scope and communicate in sufficient detail to allow stakeholders to better understand the nature of the proposed work

Benefits:

Taking a broader approach to risk based audit planning will help ensure the efficient allocation of resources to those areas representing the most significant risks to the City's key goals and objectives.

To the extent there may be a desire for the OAG to help identify opportunities for efficiencies and effectiveness, a comprehensive risk based approach to audit planning will help ensure that planned audits are targeted to those areas representing the greatest opportunities for the OAG to add value.

Related Best Practice – Federal Office of the Auditor General of Canada

The audit selection process for the Federal OAG is driven by three criteria: the significant risks associated with the area; relevance of proposed audit activities to the Auditor General's focus areas and mandate; and auditability.

The Federal OAG takes a risk-based audit planning approach which focuses on how well an auditee is managing significant risks rather than focusing on areas of suspected weaknesses.

2. Fact Validation

Opportunities:

- The AG should consider opportunities to strengthen the initial fact review process by:
 - Reviewing the extent to which City Staff are engaged during the development of key audit findings and recommendations
 - Clearly and concisely identifying the evidence supporting preliminary findings either within the reporting itself or within factsheets remitted to auditee
 - Prioritizing and grouping findings for fact review as well as clearly identifying root causes or systematic issues

Benefits:

- By strengthening the fact review process, the time and resources deployed in connection with fact validation can be reduced as will the timeliness of audit reporting be improved.

Related Best Practices – Federal Office of the Auditor General of Canada

The audit team should seek City Staff's input when:

- Developing findings to agree on the facts, or to obtain alternative sources of evidence
- Developing recommendations to obtain management's views on the best ways to correct the problem
- Obtaining agreement on the facts, observations, issues, and recommendations contained in the audit chapter, or to point out any disagreements

3. Audit Reporting

Opportunities:

- The OAG should review and amend their existing reporting template, in consultation with stakeholders, in order to ensure it incorporates a methodology for the prioritization of audit findings and recommendations.
- The OAG should consider reducing the number of recommendations by consolidating observations and working to identify the root cause of identified issues as much as possible.

Benefits:

- By developing a value-add reporting template in consultation with stakeholders, it will help ensure that audit communications focus ASC/Council and City Staff's attention on the key areas where remediation efforts are required.
- Through the conduct of root cause analysis, the OAG will be well positioned to provide City Staff with corrective actions that will support long-term benefits.

Related Best Practices – Federal Office of the Auditor General of Canada

Recommendations generally relate to strategic issues. Recommendations address areas where there are significant risks to the auditee if deficiencies remain uncorrected. Audits include recommendations where the potential for significant improvement in

operations and performance is demonstrated by the report findings. The most serious deficiencies, rather than all individual audit findings, are to be addressed.

Results – Objective #3: Roadmap to Conformance with modified* IIA Standards

*See Appendix A for details of recommended modifications.

The PwC review team grouped the modified IIA Standards (the Standards) into various thematic areas. While the OAG is not required to follow the Standards, our procedures indicated general conformance with a number of the Standards recommended for adoption, including those relating to Independence and Objectivity, Proficiency & Due Professional Care, and Continuing Professional Development.

Six thematic areas were identified where adjustments to the OAG's current operating model are required to reflect the modified Standards. While the nature and extent of required adjustments varies, it will be important that plans to make such adjustments are sufficiently detailed, complete and subject to active oversight by the ASC.

Areas of the Standards where General Conformance not Demonstrated	Path to General Conformance - Highlights
Purpose, Authority and Responsibility	Update the AG's mandate to encompass specific expectations of the ASC and report periodically to the ASC on same.
Quality Assurance and Improvement Program	Formalize a Quality Assurance & Improvement Program for ASC's approval.
Annual Audit Planning	Enhance communication of Audit Plans and resource requirements for Council approval and document linkages between the Plan and the City's goals, risks and risk appetite.
Engagement Planning	Ensure consistent documentation of relevant risks as well as documentation of objectives, scope, timing and criteria for all audits.
Quality Control	Ensure evidence of supervision and review on all engagement work programs, summary working papers and draft reports.
Communicating Results	Tailor audit reports to include an overall conclusion/opinion, and ensure all reports are appropriately concise and constructive.

To identify and map the additional activities required to support the OAG's conformance with modified IIA Standards, we have provided details of the related IIA Standards and the required path to conformance for the six main areas as follows:

Area #1: Purpose, Authority, and Responsibility

Highlights of IIA Standards (as modified):

- Purpose, authority and responsibility of the audit activity be formally defined in a charter

- Periodic review of the charter and presentation to the ASC for approval
- Confirmation, at least annually, of independence to the ASC

OAG Path to conformance:

- Amend OAG’s Mandate (or “charter”) to have it better reflect
- The details of the OAG’s purpose and responsibilities in supporting the needs of Council
- The authority and responsibility of the ASC in overseeing the OAG, including such matters as periodic review of the OAG Mandate, reporting requirements and annual confirmation of the OAG’s independence

Area #2: Quality Assurance & Improvement Program

Highlights of IIA Standards (as modified):

- Implementation of a quality assurance and improvement program, which includes:
 - Internal Assessments:
 - On-going monitoring of performance
 - Periodic reviews performed through self-assessment
 - An external assessment at least once every five years by a qualified, independent review team outside of the organization

OAG Path to conformance:

Formalize the Quality Assurance and Improvement Program for ASC approval. This program would include formal requirements related to:

- Performance management – including performance metrics/indicators and performance reporting requirements
- Periodic internal file reviews (e.g. independent reviews of a sample of audit files) and internal assessments of the OAG’s compliance status against IIA Standards
- External assessments (at least every five years)

Area #3: Annual Audit Planning Process

Highlights of IIA Standards (as modified):

- Develop a risk-based plan, consistent with the organization’s goals, to determine the priorities of the audit activity.
 - Based on a documented risk assessment, undertaking annually
 - Input of Council, and other stakeholders as applicable, must be considered
- Share information and coordinate activities with other internal and external providers of assurance to ensure proper coverage.
- Report on significant risk exposures and control issues, including fraud and governance.
- Communicate the audit function’s plan and resource requirements to the ASC for review and approval and for information purposes to City Staff.

OAG Path to conformance:

- Communicate the annual audit plan and resource requirements for approval by the ASC and for information purposes to senior City Staff
- Develop an annual plan that is clearly linked to the City's key goals and risk areas. This would involve documentation of an annual planning process which includes:
 - The solicitation of input from an appropriately broad range of key stakeholders
 - A process to align the audit plan with key risks, including results of recent risk assessments performed by the City
- Consider the relevant assurance activities conducted by, or on, the City (e.g. the Compliance Group, Provincial regulators/inspectors)

Area #4: Engagement Planning

Highlights of IIA Standards (as modified):

- In planning the audit engagement, the function must consider:
 - The significant risks to the activity, its objectives, resources and operations
 - The adequacy and effectiveness of the activity's risk management and control processes compared to relevant control framework
 - Opportunities for making significant improvements to the risk management and control processes
- Must develop and document a plan for each engagement, including engagement objectives, scope, timing and resource allocations
- An audit work program outlining the procedures to be performed must be developed, documented and approved prior to implementation, with any adjustments approved promptly

OAG Path to conformance:

- Ensure adequate documentation is noted in audit files evidencing that a preliminary assessment of the risks relevant to each audit through discussions including, as applicable, with City Staff
- Ensure documentation of audit objectives, scope, timing and criteria for all audits
- For all audits, ensure documentation of audit procedures within a formal work program for approval by the AG or a Deputy Auditor General

Area #5: Quality Control Practices

Highlights of IIA Standards (as modified):

- Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed
- That observations and conclusions be supported by documented, sufficient, reliable, relevant and useful information
- Appropriate evidence of supervision is documented and retained

OAG Path to conformance:

- Ensure there is consistent documentation evidencing supervision and review for each audit. This would include maintaining evidence demonstrating supervisory review and approval on the following documents:
- Engagement work program (prior to its implementation)
- Summary/conclusion working papers (prior to sending draft reports for fact validation)
- Draft audit reports

Area #6: Communicating Results

Highlights of IIA Standards (as modified):

- Engagement results must include, where appropriate, an overall opinion and/or conclusion which takes into account the expectations of Council, and other stakeholders as applicable
- Acknowledge satisfactory performance, as applicable, in audit reports
- Communications must be accurate, objective, clear, concise, constructive, complete and timely

OAG Path to conformance:

- Include an overall opinion and/or conclusion in all audit reports (i.e. summary of the key issues)
- Consistently acknowledge satisfactory performance (e.g. areas where City Staff has sufficiently mitigated key risks and/or made recent improvements to improve operational effectiveness or efficiency).
- Ensure all audit reports are concise and constructive, avoiding unnecessary elaboration and while helping the ASC/ Council and City Staff concentrate their efforts on making key improvements.

Appendix A –Proposed Modifications IIA Standards

A majority of IIA Standards* are consistent with the need to ensure appropriate independence of the AG and alignment with the ASC’s Terms of Reference; however, the following table outlines those Standards which should be modified in order to help reinforce the AG’s independence and accountability to Council through the ASC:

Thematic Area	Related IIA Standards	Requirements of Standards	Recommended Modification
Purpose Authority and Responsibility	1000 - Purpose, Authority, and Responsibility	The Chief Audit Executive (CAE) must periodically review internal audit charter and present it to senior management and the board for approval.	The AG must periodically review the OAG’s charter and present it to Council/ASC for approval.
Purpose Authority and Responsibility	1010 – Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter	The CAE should discuss the Definition of Internal Audit, the Code of Ethics, and the Standards with senior management and the board.	The AG should discuss the Code of Ethics and the Standards with Council/ASC.
Quality Assurance and Improvement	1320 – Reporting on the Quality Assurance and Improvement Program	The CAE must communicate the results of the quality assurance and improvement program to senior management and the board.	The AG must communicate the results of the quality assurance and improvement program to Council/ASC.
Quality Assurance and Improvement	1322 – Disclosure of Non-conformance	The CAE must disclose the nonconformance and the impact to senior management and the board.	The AG must disclose non-conformances and the impact to Council/ASC.
Annual Audit Planning Process	2010 - Planning	The CAE must identify and consider the expectations of senior management, the	The AG must identify and consider the expectations of Council (via ASC), and other

Thematic Area	Related IIA Standards	Requirements of Standards	Recommended Modification
		board, and other stakeholders for internal audit opinions and other conclusions.	stakeholders (as applicable), for audit opinions and other conclusions.
Annual Audit Planning Process	2020 – Communication and Approval	The CAE must communicate the internal audit activity's plans and resource requirements to senior management and the board for review and approval.	The AG must communicate the annual audit plan and resource requirements to the ASC for review and approval, and to senior City management for information purposes.
Annual Audit Planning Process	2060 – Reporting to Senior Management and the Board	The CAE must report periodically to senior management and the board on the internal audit activity's purpose, authority, responsibility, and performance relative to its plan.	The AG must report periodically to Council/ASC on the OAG's purpose, authority, responsibility, and performance relative its plan.
Engagement Planning	2210 – Engagement Objectives	Internal Auditors must ascertain the extent to which management has established adequate criteria to determine whether objectives and goals have been accomplished.	The AG must consider, as applicable, the input of City management in the development of the audit criteria.
Communicating Results	2410 – Criteria for Communicating	When issued, an opinion or conclusion must take account of the expectations of senior management, the board, and other	When issuing an opinion or conclusion, the AG must consider, as applicable, the expectations of other stakeholders.

Thematic Area	Related IIA Standards	Requirements of Standards	Recommended Modification
		stakeholders.	
Communicating Results	2450 – Overall Opinion	When an overall opinion is issued, it must take into account the expectations of senior management, the board, and other stakeholders.	When issuing an overall opinion, the AG must consider, as applicable, the expectations of other stakeholders.

* Given the AG’s mandate, none of the IIA Standards pertaining to Consulting Services are considered relevant to the OAG.