



**SUBJECT: Conclusion of International Standards for the Professional Practice of Internal Auditing Self-Assessment**

**TO: Audit Committee**

**FROM: City Auditor's Office**

Report Number: CA-18-18

Wards Affected: Not applicable

File Numbers: 430-01

Date to Committee: November 7, 2018

Date to Council: November 12, 2018

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### **Recommendation:**

Receive and file City Auditor's Office report CA-18-18 providing Deloitte LLP conclusion of the City Auditor's self-assessment for compliance with the International Standards for the Professional Practice of Internal Auditing as found in Appendix C.

### **Purpose:**

- An Engaging City
- Good Governance

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### **Background and Discussion:**

The Institute of Internal Auditors (IIA) is an international professional association with global headquarters in the USA. Globally, The IIA has more than 185,000 members. The mission of the IIA is to provide dynamic leadership for the global profession of internal auditing including, but not limited to: advocating and promoting the value internal audit professionals add to their organization; providing comprehensive professional educational and development opportunities, standards and other professional practice guidance, and certification programs; researching, disseminating, and promoting knowledge concerning internal auditing and its appropriate role in control, risk management, and governance to practitioners and stakeholders; educating practitioners and other relevant audiences on best practices in internal auditing; and

bringing together internal auditors from all countries to share information and experiences.

The IIA's International Standards for the Professional Practice of Internal Auditing Standard 1312 - External Assessments 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.

The standard allows for self-assessment with independent validation.

Since its inception in January 2009, the Office of the City Auditor complied with this standard in 2013 by completing a self-assessment in with independent validation by Deloitte LLP. Refer to CA-13-13 in May 28, 2013 Audit Committee agenda.

The Audit Committee was advised of the engagement of Deloitte LLP to perform an independent validation of the City Auditor's self-assessment with the current standards to comply with the five-year timeline. Refer to CA-02-18 in the February 15, 2018 Audit Committee agenda.

## **Strategy/process**

The self-assessment was performed in March 2018 with the refresh of 2013 documentation including (A) the IIA self-assessment tool and (B) the City Auditor's standards map updated to reflect the current standards and the interpretation guidance.

- (A) The IIA self-assessment tool provides guidance on areas to cover in the assessment. The key aspects of the self-assessment are:
- I. Positioning – Is the internal audit activity strategically positioned within the organization to enable it to contribute to the organization's objectives and performance?

This aspect includes: a) risk management, governance, accountability, and oversight, b) background of the internal audit activity, c) internal audit practice environment (including support, authority, and scope), and d) relationship of the internal audit activity with senior management and the board (audit committee)

- II. People – Does the internal audit activity have the right people to deliver the approved audit objectives and annual audit plan?

This aspect includes the staff qualifications, staff development policies and programs, and utilization of staff time and contract (outsourced) services applied to types of assurance and consulting activities.

- III. Processes – Do the internal audit activity processes enable achievement of their objectives and audit plan and allow the activity to be responsive to the changing needs of the organization?

This aspect includes: a) internal audit activity documentation, b) internal audit activity effectiveness and performance measurements , and c) planning

For each aspect, the IIA guidance requires commentary, details, and examples. A section of the completed self-assessment tool is provided in Appendix A for reference.

- (B) The City Auditor's standards map contains all the attribute and performance standards, as well as the interpretations, and provides comments as to how the internal audit function complies. Attribute Standards address the attributes of organizations and individuals performing internal auditing. Performance Standards describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. Attribute and Performance Standards apply to all internal audit services. A section of the completed self-assessment standards map is provided in Appendix B for reference.

Based on the self-assessment, the City Auditor concluded the audit practices in the City of Burlington comply with the Institute of Internal Auditors (IIA) International Standards for the Professional Practice of Internal Auditing. Deloitte LLP completed their independent validation of this self-assessment and concur with the City Auditor's conclusion. Deloitte's letter is provided in Appendix C.

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## **Financial Matters:**

The cost of independent validation was \$6,500 plus tax. This fee included both the independent validation of the City Auditor's self-assessment for compliance with the International Standards for the Professional Practice of Internal Auditing, and the quality assurance reviews of internal audits performed in 2018.

The City Auditor spent approximately 12 hours updating the documentation to demonstrate how the office practices are in compliance with the standards and identifying gaps.

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**Connections:**

Not applicable.

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**Public Engagement Matters:**

Not applicable

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**Conclusion:**

Deloitte LLP concur with the City Auditor's self-assessment the City of Burlington's internal audit function is in compliance with the International Standards for the Professional Practice of Internal Auditing. This conclusion provides confirmation of the reliability and credibility of the internal audit function in providing assurance and consulting services.

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Respectfully submitted,

Sheila M. Jones, CIA, CFE, CGAP, CRMA, CCSA

City Auditor

905-335-7600 ext. 7872

**Appendices:**

- A. CA-18-18 - Excerpt from IIA Self Assessment Tool
- B. CA-18-18 - Excerpt from 2018 IPPF\_Standards\_2012 Self Assessment v2
- C. CA-18-18 - Letter from Deloitte dated October 15, 2018

**Report Approval:**

All reports are reviewed and/or approved by Department Director, Director of Finance and Director of Legal. Final approval is by the City Manager.

## **Appendix A - Excerpt from 2018 IPPF\_Standards\_2012 Self Assessment Tool - final**

### **International Standards for the Professional Practice of Internal Auditing Self-Assessment**

#### **Introduction**

The key aspects of the self-assessment are:

- I. Positioning – Is the internal audit activity strategically positioned within the organization to enable it to contribute to the organization's objectives and performance?
- II. People – Does the internal audit activity have the right people to deliver the approved audit objectives and annual audit plan?
- III. Processes – Do the internal audit activity processes enable achievement of their objectives and audit plan and allow the activity to be responsive to the changing needs of the organization?

#### **I. POSITIONING**

##### **A. Risk Management, Governance, Accountability, and Oversight**

1. Describe the process to identify, measure, and manage enterprise risk in the organization; list the most significant risks that have been identified ([Attachment 1](#)).
2. Describe how the organization's strategies are selected, how objectives are established, measured, and reported, and indicate how managers are held accountable for achievement of their assigned objectives ([Attachment 2](#)).
3. Attach a copy of the policy for controlling the organization (e.g., management control policies, delegations of authority, or accountabilities) ([Attachment 3](#)). Do you consider it adequate (e.g., covering enterprise risk, authorities, management controls, and accountabilities)? If there is no written control policy, what policies are in place to ensure appropriate management control processes?
4. Describe the extent to which the IA activity's priorities, scope of work, and use of resources are aligned with the organization's enterprise risk management framework; describe how the IA activity contributes to achievement of the organization's goals ([Attachment 4](#)). Comment on potential or planned changes to the IA activity's priorities, scope, or use of resources to enhance that alignment. Compare alignment of the IA activity's risk and planning universe with the organization's enterprise risk universe and management control structure.
5. Attach a copy of the audit committee's charter or similar document relating to board oversight of the IA activity and other monitoring functions in the organization ([Attachment 5](#)). Compare this charter to a model audit committee charter and comment as to the extent to which this current audit committee charter gives the audit committee adequate authority, scope, resources, information, and access to management to discharge its responsibilities. Comment on any proposed or potential enhancements to the audit committee's current charter.

## **B. Background of the IA Activity**

1. Give a brief history of the IA activity, including when it was started, any change(s) of CAEs during the past 10 years, an indication of its growth in the past 10 years, and significant changes in its lines of reporting, authority, scope of work, and internal organization ([Attachment 6](#)). Comment on how these changes have enhanced the IA activity's effectiveness.
2. Name and title of the person to whom the CAE administratively reports.  
**James Ridge, City Manager**
3. Name and address of the chair of the audit committee or other board member(s) with oversight of the IA activity.  
**Paul Sharman, Councillor**  
**426 Brant Street, Burlington, ON L7R 3Z6**
4. Name of the organization's external auditing firm.  
**Deloitte & Touche**
5. Person who heads up the external audit (e.g., partner-in-charge).  
**Trevor Ferguson**

## **C. Internal Audit Practice Environment (including Support, Authority, and Scope)**

1. Attach the entity's organization chart showing placement of the IA activity ([Attachment 7](#)). Comment as to whether or not this is the optimum placement of the department to ensure independence, access to appropriate executives, ease of communication, support, and resources. Comment on any proposed or potential enhancements in these areas.
2. Attach a copy of the IA activity's charter or similar authorities document ([Attachment 8](#)). Compare this charter to a model IA activity charter and comment on how the IA activity's charter fosters the independence, access, resources, etc. necessary to the effective functioning of the IA activity. Mention any proposed or potential enhancements to the IA activity's charter.
  - 2.1 Does the IA charter set the tone for the mission of the IA activity and your interaction with the board and senior management, and have their formal approval? **Yes**
  - 2.2 Is the charter current and relevant in view of any significant changes in the organization and in the Standards? **Yes**
  - 2.3 Does the charter establish an adequate role, authority, and scope of work of the IA activity, and provide unrestricted access to records, information, locations, and employees?  
**Yes**
3. Does the IA activity have full access to all areas of the organization? **Yes** If not, describe restrictions on the IA activity regarding access to information considered necessary to conduct audits and consulting engagements or access to relevant managers and employees ([Attachment 9](#)).
4. List other oversight/monitoring units outside the IA activity. Describe their authority, scope, and functions (e.g., safety, environment, evaluation, security, investigations, process improvement, and other compliance/consulting activities) ([Attachment 10](#)). Describe (a) how their separation from the IA activity impacts their overall effectiveness, (b) how they relate to senior management, the board, and other governance responsibilities and accountabilities, (c) how the separation impacts risk management, management control, efficiency, or resource utilization, and (d) comment on the potential for combining (any of) these functions and whether or not this is planned in the near future.

5. Is the IA activity adequately funded to perform the desired scope of work? **Yes.**

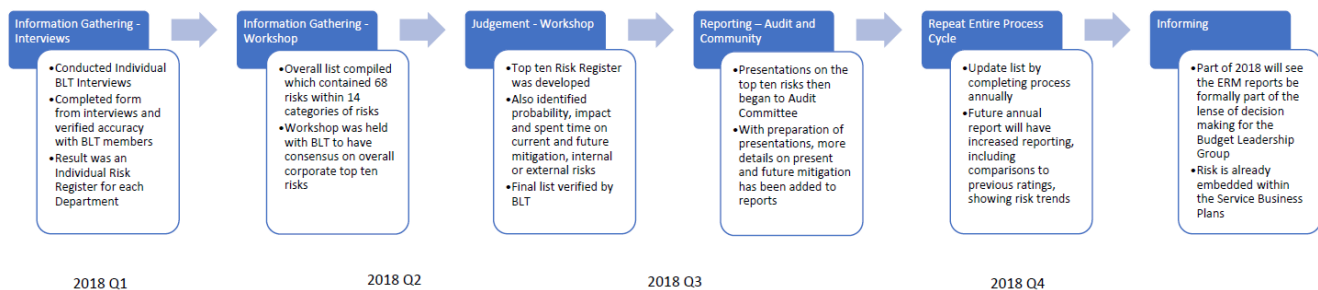
## Attachments

### Attachment 1

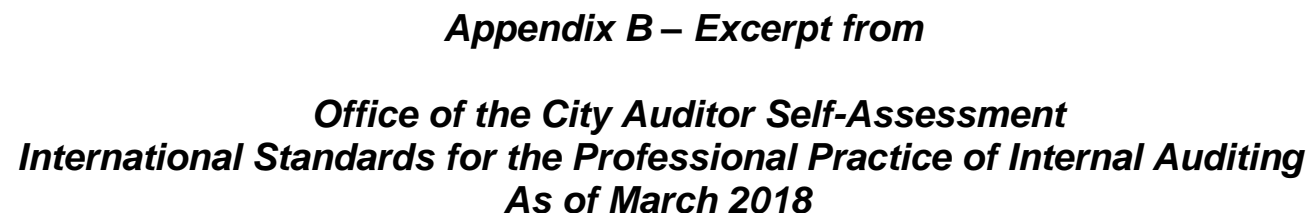
Describe the process to identify, measure, and manage enterprise risk in the organization; list the most significant risks that have been identified.

The City's ERM policy is in place, most recently updated February 2018: Enterprise Risk Management Policy on Burlington.ca

The ERM process is:



This process will now be used on an ongoing annual basis to update the ERM risk register. Task completion quartiles for 2018 are listed beneath each activity as a reference. ERM policy will be reviewed every 4 years as per city policy, unless required sooner.



Standard		Self-Assessment	Comments
<b>1000 – Purpose, Authority, and Responsibility</b>  <p style="text-align: right;"><b>Interpretation:</b></p>	<p>The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the <i>Standards</i>, and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.</p> <p><i>The internal audit charter is a formal document that defines the internal audit activity's purpose, authority, and responsibility. The internal audit charter establishes the internal audit activity's position within the organization, including the nature of the chief audit executive's functional reporting relationship with the board; authorizes access to records, personnel, and physical properties relevant to the performance of engagements; and defines the scope of internal audit activities. Final approval of the internal audit charter resides with the board.</i></p>	Meets	Charter of the Office of the City Auditor approved by Audit Committee on February 1, 2017 (CA-03-17) and approved by Council on February 13, 2017.
<b>1000.A1 –</b>	The nature of assurance services provided to the organization must be defined in the internal audit charter. If assurances are to be provided to parties outside the organization, the nature of these assurances must also be defined in the internal audit charter.	Meets	
<b>1000.C1 –</b>		Meets	



Standard		Self-Assessment	Comments
	The nature of consulting services must be defined in the internal audit charter.		
<b>1010 – Recognition of the Definition of Internal Auditing, the Code of Ethics, and the Standards in the Internal Audit Charter</b>	The mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the <i>Standards</i> , and the Definition of Internal Auditing must be recognized in the internal audit charter. The chief audit executive should discuss the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework with senior management and the board.	Meets	<p>Charter of the Office of the City Auditor approved by Audit Committee on February 1, 2017 (CA-03-17) and approved by Council on February 13, 2017.</p> <p>Orientation provided to new audit committee members through Clerks Department and City Auditor on February 9, 2015.</p> <p>Reflection and assessment discussions included review of mission and definition of internal audit, and review of major processes; i.e. inherent risk assessment update, audit work plan development, audit planning, audit fieldwork, audit reporting, and audit follow up. These discussions occurred with members of Burlington Leadership Team and audit clients in February and March of 2018.</p>
<b>1100 – Independence and Objectivity</b>	<p>The internal audit activity must be independent, and internal auditors must be objective in performing their work.</p> <p><b>Interpretation:</b> <i>Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board.</i></p> <p><i>This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.</i></p> <p><i>Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they</i></p>	Meets	<p>City Auditor reports functionally to Audit Committee and administratively to City Manager.</p> <p>Charter of the Office of the City Auditor contains the reporting relationship, identifies the Audit Committee's responsibility for conducting the performance evaluation of the City Auditor and the authority to have unfettered access to the Audit Committee.</p> <p>Objectivity is maintained:</p> <ul style="list-style-type: none"> <li>· By not assuming any operational responsibility for areas outside the jurisdiction of the Office of the City Auditor.</li> <li>· Through external quality assurance review of work products before the final report is issued.</li> </ul>

Standard		Self-Assessment	Comments
	<i>believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.</i>		<ul style="list-style-type: none"> <li>By not accepting gifts or favors from others such as employees, clients or business associates.</li> <li>By including in the Charter an endorsement of the commitment to abide by the Code of Ethics, and specific values and principles.</li> </ul>

**Performance Standards** describe the nature of internal auditing and provide quality criteria against which the performance of these services can be measured. Implementation Standards expand upon these standards by providing the requirements applicable to assurance (.A) or consulting (.C) services.

Standards		Assessment	Comments
<b>2000 – Managing the Internal Audit Activity</b>  <b>Interpretation:</b>	<p>The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.</p> <p><i>The internal audit activity is effectively managed when:</i></p> <ul style="list-style-type: none"> <li><i>It achieves the purpose and responsibility included in the internal audit charter.</i></li> <li><i>It conforms with the Standards.</i></li> <li><i>Its individual members conform with the Code of Ethics and the Standards.</i></li> <li><i>It considers trends and emerging issues that could impact the organization.</i></li> </ul> <p><i>The internal audit activity adds value to the organization and its stakeholders when it considers strategies, objectives, and risks; strives to offer ways to enhance governance, risk management, and control processes; and objectively provides relevant assurance.</i></p>	Meets	<p>Regular reporting of performance measures to the Audit Committee and regular updates with Burlington Leadership Team work to ensure that Internal Audit is adding value to organization.</p> <p>Reflection and assessment of the internal audit service, in spring of 2018, identified areas for enhancement and change in the processes and overall service to better meet the needs of clients.</p>
<b>2010 – Planning</b>  <b>Interpretation:</b>	<p>The chief audit executive must establish a risk-based plan to determine the priorities of the internal audit activity, consistent with the organization's goals.</p> <p><i>To develop the risk-based plan, the chief audit executive consults with senior management and the board and obtains an</i></p>	Meets	<p>Risk-based 3-year rolling plan was established using inherent risk assessment with annual updates to risk profiles confirmed by service owners/managers and directors.</p>

Standards		Assessment	Comments
	<i>understanding of the organization's strategies, key business objectives, associated risks, and risk management processes. The chief audit executive must review and adjust the plan, as necessary, in response to changes in the organization's business, risks, operations, programs, systems, and controls</i>		Inherent risk assessment methodology was last updated in 2015 and expected to be reviewed in 2018.
<b>2010.A1 –</b>	The internal audit activity's plan of engagements must be based on a documented risk assessment, undertaken at least annually. The input of senior management and the board must be considered in this process.	Meets	Inherent risk assessment fully documented in Internal Audit Procedures manual. Annual updates to risk profiles performed in the fall and confirmed by service owners/managers and directors.
<b>2010.A2 –</b>	The chief audit executive must identify and consider the expectations of senior management, the board, and other stakeholders for internal audit opinions and other conclusions.	Meets	Periodic discussions with Burlington Leadership Team and service owners/managers, regular meetings with Audit Committee, and regular meetings with Audit Committee Chair.
<b>2010.C1 –</b>	The chief audit executive should consider accepting proposed consulting engagements based on the engagement's potential to improve management of risks, add value, and improve the organization's operations. Accepted engagements must be included in the plan.	Meets	Annual work plan includes consulting services work as requested by management and staff



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October 15, 2018

**Private and confidential**

Paul Sharman  
Audit Committee Chair  
City of Burlington  
426 Brant St  
P.O. Box 5013  
Burlington ON L7R 3Z6

Dear Mr. Sharman:

**Subject: Independent validation of City of Burlington Internal Audit (IA) Quality Assessment Review (QAR) self-assessment**

We (Deloitte) were engaged to independently validate the City of Burlington's Internal Audit QAR self-assessment conclusions and findings. We have now concluded our independent validation procedures and through this letter summarize our findings and conclusions.

As outlined in our engagement letter (dated March 19, 2018) we reviewed the following:

- The City's Internal audit methodologies, risk assessment, planning and reporting processes
- Internal audit's organizational structure and reporting lines
- Feedback interviews, satisfaction surveys or other performance feedback received from external auditors, audit committee members, executives, senior management, audit customers and internal audit staff
- Internal audit staff's level of professional proficiency
- Use of technology or other tools in performing the internal audit work
- Self-assessment review results for a sample of 3 internal audit files
- Assessing production and value added by the internal audit function
- Self-assessment results against each of the IIA standards with support and resulting report

We also performed stakeholder satisfaction interviews with a sample of Internal Audit stakeholders.

Based on our review, we concur with Internal Audit's self-assessment with respect to general compliance with IIA Standards.

City of Burlington  
October 15, 2018  
Page 2

We would like to thank you and your team for your timely assistance and support throughout the engagement. We thank you for the opportunity and look forward to continuing to work with you.

Yours very truly,

A handwritten signature in black ink, appearing to read 'LOK', with a horizontal line extending to the right.

Deloitte LLP  
Simon O'Keefe, Partner