

Appendix III Quality Assessment Results

Appendix III - Observations

Observations

Enterprise Risk and Audit Services believes that the environment in which the internal audit activity operates is well structured and progressive, where the *Standards* are understood, the Code of Ethics is being applied, and management endeavors to provide useful audit tools and implement appropriate practices. As such, the considerations provided by the external assessor are intended to build upon this foundation.

Observations are divided into three categories:

- **Successful Internal Audit Practices** – Areas where the internal audit activity is operating in a particularly effective or efficient manner. The identification of these items is intended to provide stakeholders information on leading practices within the internal audit activity. These items are noted in Part I below.
- **Items Arising from Partial Conformance** – Areas identified where the internal audit activity is operating in a manner that falls short of achieving one or more major objectives and attains an opinion of “partially conforms” or “does not conform” with the *Standards* or the Code of Ethics. Gaps in conformance and the management response are noted in Part II below.
- **Opportunities for Continuous Improvement** – Observations of opportunities to enhance the efficiency or effectiveness of the internal audit activity’s infrastructure of processes. These items do not indicate a lack of conformance with the *Standards* or the Code of Ethics but is intended to offer suggestions on how to better align with criteria defined in the *Standards* and the Code of Ethics. Opportunities for improvement and the management response are noted in Part III below.

PART I – SUCCESSFUL INTERNAL AUDIT PRACTICES

Successful internal audit practices are noted below:

- The Enterprise Risk and Audit Services business plan identified opportunities to strengthen the vision of “trusted advisor”, the ability to participate in strategy development and discussion with senior management. The Director, Enterprise Risk and Audit Services is included in strategy development and the Term of Council Priorities discussion bringing both the risk management and governance lens to the table.
- The Enterprise Risk and Audit Services has effective and direct interaction with management.
- The Enterprise Risk and Audit Services has a quality assurance internal process that is well designed and functioning as intended.
- The division has qualified, professional and competent staff. Most staff have the Certified Internal Auditors (CIA) designation and other professional designations

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including Chartered Professional Accountant and Certifications in Risk Management Assurance.

- Staff are engaged and vested in the success of both the organization and their profession.
- The Enterprise Risk and Audit Services has a robust risk-based plan aligned with the organization's strategies, objectives and outcomes, and key risks. The risk-based plan is developed with engagement of management.
- The Enterprise Risk and Audit Services has developed a separate, comprehensive, and robust Information Technology risk assessment and audit plan that has been reviewed by the Audit and Risk Committee.
- Audit reports are streamlined, good quality, clear and concise.
- Audit working papers and the tracking of the Management Actions Plans are both automated.

PART II – ITEMS ARISING FROM PARTIAL CONFORMANCE

1. Standard *1110 Organizational Independence* requires that the Chief Audit Executive (Director, Enterprise Risk and Audit Services) report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The Director must confirm to the board (Audit and Risk Committee) at least annually the organizational independence of the internal audit activity. Organizational independence is achieved when the Director reports functionally to the board.

The Director reports to the Audit and Risk Committee functionally and to the Commissioner of Corporate Services administratively. As such, the relationship between the Director and the Audit and Risk Committee can be further strengthened to help ensure the independence of the function.

Consideration should be given to the following:

- Input from the Audit and Risk Committee on the hiring and removal of the Director
- Input from the Audit and Risk Committee on the performance and remuneration of the Director
- That the Audit and Risk Committee recommend for approval the budget of the Enterprise and Risk Management division
- That the Audit and Risk Committee approve significant changes to the Enterprise Audit Services Risk-Based Work Plan

Response: Internal Audit Activity

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- The powers of a municipality in the Province of Ontario are exercised by council. A council may delegate powers to, among others, individuals appointed by council. In the Region of Peel, Regional Council delegated authority over recruitment, promotion, discipline and removal to the Chief Administrative Officer. Given these parameters, outlined under the *Municipal Act, 2001* coupled with Regional By-law 2015-1, Regional Council has delegated the authority over recruitment, promotion, discipline and removal of the Director to the Chief Administrative Officer and as such Council has, in effect, input on the employment and performance of the Director.
 - The internal audit activity follows the Regional annual budget process. The internal audit activity, which includes budgeted dollars and full-time equivalent is reviewed and approved by the Director, followed by review and approval of the Commissioner, Corporate Services and the Executive Leadership Team. The budget is then brought forward to Regional Council for approval. As Regional Council is the ultimate decision maker on the budget a separate approval through the Audit and Risk Committee is not sought.
 - The Audit and Risk Committee has delegated authority to the Director, Enterprise Risk and Audit Services to make changes to the approved Enterprise Audit Services Risk Based Work Plan (Work Plan) as needed. The Audit and Risk Committee Charter will be updated to include that “significant changes” to the Work Plan will be brought forward to the Audit and Risk Committee for approval. The change will be made during the regular review process of the Audit and Risk Committee Charter in December 2020.
2. Standard 2120.A2 requires that the internal audit activity must evaluate the potential for the occurrence of fraud and how the organization manages fraud risk.

The internal audit activity leads the fraud prevention program on behalf of the organization. This includes the fraud prevention policy development and upkeep, education and training on fraud prevention to staff, reporting on fraud events to the Audit and Risk Committee and investigation services.

Response: Internal Audit Activity

The internal audit activity will evaluate the potential for the occurrence of fraud and how the Region manages fraud risk. This work may involve an independent assessment given the responsibility of the internal audit activity to lead the fraud prevention program. This assessment will be completed by July 2021.

PART III – OPPORTUNITIES FOR CONTINUOUS IMPROVEMENT

1. Part of the Enterprise Risk and Audit Services Business Plan includes initiatives to increase awareness around advisory services that the internal audit activity can provide. Advisory services are intended to add value and improve an organization’s governance, risk management and control processes. The Enterprise Audit Services Risk Based Work Plan provides time to provide advisory services.

Consideration should be given for the following:

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- Increasing time allotted in the Enterprise Audit Services Risk-Based Work Plan for advisory services with a goal of adding value to stakeholders and strengthen the partnership with management

Response: Internal Audit Activity

- The internal audit activity will continue to raise awareness regarding advisory services as part of the Enterprise Audit Services Risk Based Work Plan development process. This will include identifying corporate initiatives that are suitable for advisory services. This target date for completion for this work is November 30, 2020.
2. Standard *2050 Coordination and Reliance* allows for the Director, Enterprise Risk and Audit Services to share information, coordinate activities and consider relying upon the work of other internal and external assurance and consulting providers (second and third lines of defense) to ensure proper coverage and minimize where possible duplication of efforts. One way to support this is through the development of an Assurance Map. An Assurance Map¹ is a matrix comprising a visual representation of the organization's risks and all internal and external providers of assurance services that cover those risks. The Assurance Map exposes coverage gaps and duplications and can be used to coordinate efforts to help ensure sufficient coverage and reduce duplication.

Consideration should be given to the following:

- That the internal audit activity leads the development of an assurance map with other providers of assurance; this may include partners both internal and external to the Region such as the provincial auditor general
- Development of protocols for reliance on other party's work

Response: Internal Audit Activity

- The internal audit activity will take a phased approach to the development of the Assurance Map. Phase I will involve working with internal partners who provide assurance to the respective services and sub-services. The second phase will be working with external partners that provide assurance services to the Region. This may include but not be limited to the external auditors and provincial auditors. Phase I target date is December 2020 and Phase II July 2021. The results of the Assurance Map will serve as an input into the annual Enterprise Audit Services Risk Based Work Plan.

- The protocol for the reliance on other party's work will be developed in-line with the development of the Assurance Map by December 2020.

¹(*Institute of Internal Auditors, 2018*)