

CORPORATE POLICY

POLICY TITLE: INTERNAL AUDIT

POLICY NO.: 02.C.07

Section:	Accountability & Transparency		
Effective Date:	June 14, 2020	Date of Last Review:	April 25, 2022
Approval Authority: Council	Policy Owner: Director, Internal Audit		

POLICY STATEMENT

Internal Audit will govern itself by adherence to the mandatory elements of the Institute of Internal Auditors' (*IIA*) International Standards for the Professional Practice of Internal Auditing (*Standards*), including the Code of Ethics and the definition of Internal Auditing. Internal Audit will manage, coordinate and investigate reports of fraud and misconduct in accordance with the Standards of the Association of Certified Fraud Examiners. Additionally, Internal Audit will adhere to the City's policies and procedures and the Internal Audit Procedures Manual.

PURPOSE

Internal Audit assists the City of Vaughan in accomplishing its business objectives by providing a systematic and disciplined approach to help improve the effectiveness of risk management, control and governance processes.

Internal Audit is an independent, objective assurance and advisory activity designed to add value and improve operations.

SCOPE

All activities of the City of Vaughan and their Boards, Authorities and Agencies may be subject to audit by Internal Audit.

This includes:

1. Determining if risks are identified and properly managed.
2. Evaluating the effectiveness and efficiency of key controls in mitigating risk.

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3. Evaluating the potential for the occurrence of fraud and how the organization manages fraud risk.
4. Reviewing and appraising the reliability and integrity of financial, managerial and operating data and information.
5. Determining if resources are acquired economically, used efficiently and adequately protected.
6. Ascertaining compliance with legislation and policies and procedures.
7. Reviewing operations or programs to assess whether they are being carried out as planned and whether results are consistent with established objectives.
8. Ensuring quality and continuous improvement is fostered in the City's risk, control and governance processes.
9. Conducting special projects or reviews as requested by either Council or the City Manager's Office.

LEGISLATIVE REQUIREMENTS

1. Municipal Freedom of Information and Protection of Privacy Act, R.S.O. 1990.

DEFINITIONS

1. **Add Value:** Value is provided by improving opportunities to achieve organizational objectives, identifying operational improvement, and/or reducing risk exposure through both assurance and consulting services.
2. **Advisory Services:** Advisory and related client service activities, the nature and scope of which are agreed with the client and which are intended to add value and improve an organization's governance, risk management and control processes without the Internal Auditor assuming Management responsibility. Examples include counsel, advice, facilitation and training.

Advisory services are generally performed at the specific request of an engagement client. When performing advisory services, the Internal Auditor should maintain objectivity and not assume management responsibility.
3. **Assurance:** An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organization and that the results can be relied upon for supporting informed decision making.

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- 4. Compliance:** Conformity and adherence to policies, plans, procedures, laws, regulations, contracts or other requirements.
- 5. Conflict of Interest:** Any relationship that is or appears to be not in the best interest of the organization. A conflict of interest would prejudice an individual's ability to perform their duties and responsibilities objectively.
- 6. Control Environment:** The attitude and actions of the Board/Council and Management regarding the significance of control within the organization. The control environment provides the discipline and structure for the achievement of the primary objectives of the system of internal control. The control environment includes the following elements:
 - 6.1. Integrity and ethical values.
 - 6.2. Management's philosophy and operating style.
 - 6.3. Organizational structure.
 - 6.4. Assignment of authority and responsibility.
 - 6.5. Human resource policies and practices.
 - 6.6. Competence of personnel.
- 7. Control/Internal Controls:** Any action taken by Management and other parties to enhance risk management and increase the likelihood that established objectives and goals will be achieved. Management plans, organizes and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

The system of management controls (business plans, capturing and analyzing data, performance reporting, code of conduct, etc.) are implemented within an organization to ensure that the organization's assets (human, physical and information) are protected and to provide reasonable assurance that its objectives can be achieved.
- 8. Control Processes:** The policies, procedures and activities that are part of a control framework, designed to ensure that risks are contained within the risk tolerances established by the risk management process.
- 9. Council:** A legislative body that has overall responsibility and accountability for the City of Vaughan. For purposes of this policy, this also includes Committees that support Council including the Committee of the Whole.
- 10. Engagement:** A specific Internal Audit assignment, task or review activity, such as an internal audit, control self-assessment review, fraud examination or consultancy. An engagement may include multiple tasks or activities designed to accomplish a specific set of related objectives.

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- 11. Engagement Objectives:** Broad statements developed by Internal Auditors that define intended engagement accomplishments.
- 12. Enterprise Risk Management:** A structured, consistent and continuous process across the whole City for identifying, assessing, deciding on responses to and reporting on opportunities and threats that affect the achievement of objectives.
- 13. Ethics:** Conception of what is right and fair conduct or behaviour. Ethics can also be equated with the concept of morals; one's ability to choose between right and wrong, good and bad, acceptable and unacceptable.
- 14. Fraud:** Any illegal acts characterized by deceit, concealment or violation of trust. These acts are not dependent upon the application of threat of violence or of physical force. Frauds are perpetrated by parties and organizations to obtain money, property or services, to avoid payment or loss of services, or to secure personal or business advantage.
- 15. Governance:** The combination of processes and structures implemented by the governing body in order to inform, direct, manage and monitor the activities of the organization toward the achievement of its objectives.
- 16. Independence:** The freedom from conditions that threaten objectivity or the appearance of objectivity. Such threats to objectivity must be managed at the individual auditor, engagement, functional and organizational levels.
- 17. Mitigating Strategies:** Actions taken to manage risk, including:
- 17.1. Avoid: Action taken to remove the risk. This could imply not pursuing strategy, program or service as this would exceed the City's risk appetite.
 - 17.2. Accept: No action required as the severity of risk is within the risk appetite.
 - 17.3. Reduce: Action taken to reduce the severity of the risk. This is usually recognized as control used in everyday business decisions that reduces risk to an amount aligned with risk appetite and tolerances.
 - 17.4. Share: Action taken to reduce the severity of risk by transferring or otherwise sharing portion of the risk. Insurance, outsourcing and public private partnership arrangements are examples.
- 18. Objectivity:** An unbiased mental attitude that allows Internal Auditors to perform engagements in such a manner that they have an honest belief in their work product and that no significant quality compromises are made. Objectivity requires Internal Auditors not to subordinate their judgment on audit matters to that of others.
- 19. Risk:** The possibility that events will occur and affect the achievement of strategy and business objectives.

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20. Risk Management: Process to identify, assess, manage and control potential events or situations; to provide reasonable assurance regarding the achievement of the organization's objectives.

POLICY

1. Principles

1.1. Independence and Objectivity

Internal Auditors must be independent of the functions they audit. Internal Auditors must be objective in performing their work. Internal Audit can provide advice by assisting in identifying risk and working with the organization to improve control and governance but is not responsible for implementing risk mitigation strategies or performing control functions. Internal Auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal Auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgments.

1.2. Risk Based and Client Focused

Internal Auditors are involved in all significant business processes, functions and organizational units and work with all levels of Management to identify and assess risk, control and governance issues.

1.3. Management Supported

Management and Vaughan's Council will provide the necessary resources to help support Internal Audit as an integral component of the governance structure. Allocation of resources will be based on Management's and Council's overall assessment of need and risk.

1.4. Continuous Improvement

Internal Audit, through its own practices and actions, will promote and contribute to continuous improvement in the City.

1.5. Partnerships

Internal Audit will work with all organizational units in partnership to promote a strong governance, accountability and risk management environment in the City of Vaughan. Advisory services will support proactive partnership.

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1.6. Confidentiality

Internal Auditors respect the value and ownership of information they receive and will not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

2. Primary Services

The Internal Audit function will have two roles:

2.1. Assurance Services

Engagements and projects designed to provide reasonable assurance, through review of existing operations and processes, that the City is managing resources effectively and efficiently, is compliant with policies and legislation and that controls are properly functioning as intended.

2.2. Consulting Services

These services are proactive and forward thinking consisting of engagements and projects that focus on strategic and operational risk and control. These are primarily advisory assignments that offer a better opportunity to serve the changing needs of the City and help support better management of organizational risk.

3. Accountability

The Director of Internal Audit will be accountable to Council and will:

- 3.1. Provide, at least annually based on the scope of work performed, an assessment of the effectiveness of the City's risk management practices. Thematic based reporting will support the assessment.
- 3.2. Report significant issues related to the processes for controlling the City's overall business activities and provide information through active and constructive resolution.
- 3.3. Provide information on the status and results of the annual audit plan and the sufficiency of department resources.
- 3.4. Coordinate and partner with the external auditors.
- 3.5. Confirm, at least annually, the organizational independence of the Internal Audit activity.

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4. Reporting Relationships

The Director of Internal Audit reports functionally to Council through the Audit Committee and administratively to the City Manager.

Functional Reporting: The functional reporting relationship to Council through the Audit Committee helps ensure that the Internal Audit Department is free to work independently and objectively and is ultimately responsible for ensuring that Internal Audit has the resources and access to information to enable it to fulfil its mandate. These functional responsibilities include:

- 4.1. Reviewing the Internal Audit governance structure and attesting to the Department's organizational independence on an annual basis.
- 4.2. Providing feedback on the sufficiency of internal audit resources through the Internal Audit Risk Based Work Plan and through participation in the City's annual budgeting process.
- 4.3. Providing briefing sessions to the Mayor and Members of Council on emerging risks.
- 4.4. Presenting reports related to the Department's activities through the Audit Committee.
- 4.5. Providing an annual update on the status of all outstanding management action plans so that Council can review and monitor management's responsiveness.
- 4.6. Providing an annual update on the effectiveness of the City's Anonymous Reporting System.
- 4.7. Reporting annually on the Department's performance. This information can be used by Council to gauge the quality, efficiency and effectiveness of the Internal Audit Department.

Administrative Reporting: The administrative reporting relationship to the City Manager helps facilitate the day-to-day operations of the Internal Audit Department. This includes:

- 4.8. Providing appropriate office space, supplies and equipment.
- 4.9. Human Resources, Information Technology, and Purchasing support.
- 4.10. Internal communications and information flow.
- 4.11. Administration of the Internal Audit activity's policies and procedures.

5. Authority

5.1. The Director and staff of Internal Audit are authorized to:

- 5.1.1. Have complete independence and not be restricted in the scope, performance or communication of its work. Management and Council may provide general direction as to the scope of work and the activities to be

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audited and may request Internal Audit to carry out special reviews or audits.

5.1.2. Have unrestricted access to all records, physical properties, functions and personnel necessary to effectively discharge its responsibilities.

5.1.3. Allocate resources, determine scope of work and apply the techniques required to accomplish audit objectives.

5.1.4. Obtain the necessary assistance of personnel within the City of Vaughan where audits are performed, as well as other specialized services from within or outside the organization.

5.2. The Director and staff of Internal Audit are not authorized to:

5.2.1. Perform any operational duties for the City.

5.2.2. Initiate or approve accounting transactions external to the Internal Audit Department.

5.2.3. Direct the activities of any employee in the City not employed by Internal Audit, except to the extent such employees have been appropriately assigned to audit teams or to otherwise assist Internal Audit.

5.2.4. Develop and/or implement corporate policy. Internal audit can evaluate and provide comments on any existing policy or new policy being developed.

5.3. In case of a City emergency, to the extent that redeployment of staff may be necessary to support critical functions, Internal Audit staff may be required to perform otherwise non-authorized duties.

5.4. In the development and maintenance of a Code of Conduct, Fraud Policy or Risk Management Framework, Internal Audit should not assume ownership or overall operation of the supporting processes and policies. Internal Audit should provide guidance and education and evaluate the overall effectiveness of the processes.

6. Responsibility

The Director and staff of Internal Audit have responsibility to:

6.1. Develop an Internal Audit Risk Based Work Plan using an appropriate risk-based methodology, including any risks, control or governance concerns

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identified by Management and Council, and update that Plan annually. The Plan must be approved by Council.

- 6.2. Implement the Internal Audit Risk Based Work Plan, as approved, including as appropriate any special tasks or projects requested by Management and Council.
- 6.3. Perform advisory services to assist Management and Council in meeting its objectives. Examples include facilitation, risk and control training and other advisory services.
- 6.4. Issue reports to Management and Council summarizing the results of audit activities.
- 6.5. Review the Internal Audit Policy at least once every year to ensure that it is up-to-date and effective, and report to Management and Council.
- 6.6. Develop and maintain an audit team with versatile skill sets in order to respond effectively to Council and Management needs.
- 6.7. Develop Internal Audit performance measures and report results to Management and Council.
- 6.8. Administer the Anonymous Reporting System.
- 6.9. Manage, coordinate and investigate reports of fraud and misconduct.
- 6.10. Comply with City's obligations under the Municipal Freedom of Information and Protection of Privacy Act (MFIPPA).

7. Enterprise Risk Management (ERM)

7.1. Assurance Role

Internal Audit's core responsibility is to provide independent and objective assurance to Council and Management on the effectiveness of risk management activities.

7.2. Advisory Role

Internal Audit may provide advisory services to support the development and maintenance of the City's ERM program. This may be done as long as Internal Audit's independence and objectivity is not threatened.

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Allowable advisory services include:

- 7.2.1. Facilitating the identification and evaluation of risks.
- 7.2.2. Working with management in responding to risks.
- 7.2.3. Championing the development of an ERM program.
- 7.2.4. Helping coordinate ERM activities.
- 7.2.5. Consolidating reporting on risks.

8. Director of Internal Audit – Appointment and Dismissal

As outlined in City By-Law 012-2013, only Council has the authority and responsibility to appoint or dismiss the Director of Internal Audit.

9. Quality Assurance and Improvement Program

Internal Audit will maintain a Quality Assurance and Improvement Program that covers all aspects of Internal Audit. The program will include an evaluation of Internal Audit's conformance with the Definition of Internal Auditing and the Standards. Internal Audit will evaluate whether the IIA's Code of Ethics are properly applied. The program will also assess the efficiency and effectiveness of the Internal Audit activity and identify opportunities for improvement.

The Director of Internal Audit will communicate to Management and Council on Internal Audit's Quality Assurance and Improvement program, including all external assessments conducted, a minimum of at least once every five years. A successful external assessment permits Internal Audit to indicate audits are conducted in conformance with the International Standards for the Professional Practice of Internal Auditing.

ADMINISTRATION

Administered by the Office of the City Clerk.

Review Schedule:	SELECT 1 year	Next Review Date:	January 1, 2023
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Related Policy(ies):	
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Related By-Law(s):	By-Law 012-2013
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Procedural Document:	Audit Committee Charter
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Revision History

Date:	Description:
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25-Apr-22	Revision and update of responsibilities and quality assurance and improvement program
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