

Internal Audit Overview

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What is Internal Audit?

Internal Audit (IA) is a professional, independent assurance and consulting function designed to add value and improve the City of Guelph's operations and systems of internal controls.

IA brings a systematic, disciplined approach to evaluating and improving effectiveness of risk management, control and governance processes.

What is Internal Audit?

Independence is achieved by having no direct involvement in day-to-day operations, while maintaining direct functional relationships with management and Council.

Auditable entities within the organization include a range of programs, activities, functions and initiatives which collectively contribute to the achievement of the City's strategic objectives.

Reporting Structure of Internal Audit

IA has a dual reporting relationship where the Auditor reports to the CAO in establishing direction, and support for administrative matters; and to the Audit Committee for strategic direction, reinforcement and accountability.

Role of the Audit Committee

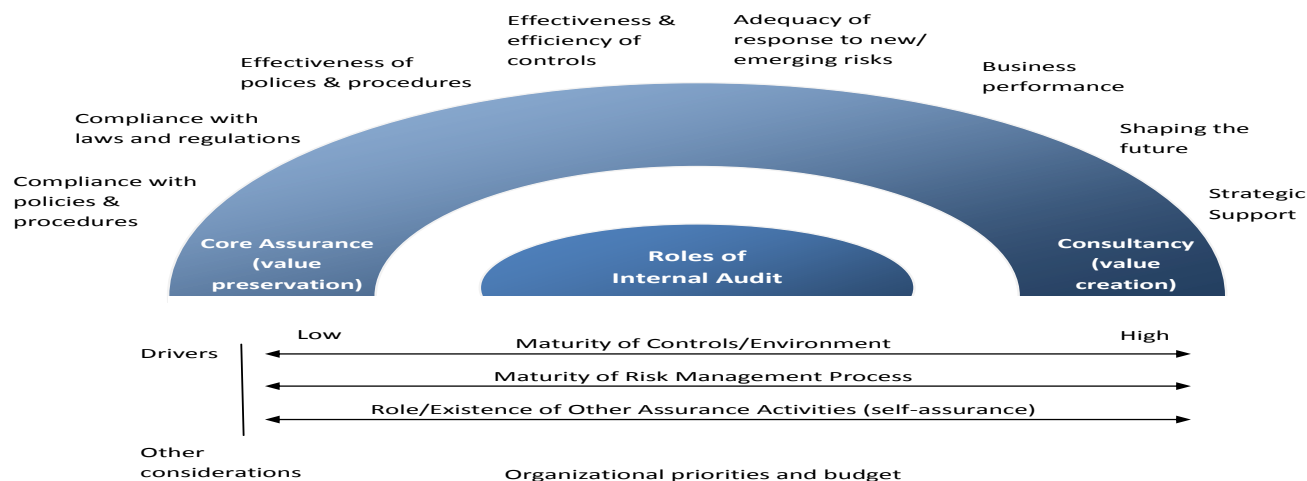
- Having input and approving the annual internal audit workplan.
- Approving the internal audit charter.
- Reviewing reports prepared by external and internal auditors.
- Review of the management responses and actions plans resulting from internal audits.

Role of the Management

- Management is responsible for the design and operation of the control frameworks and risk management for the day-to-day operations of the organization.
- While IA provides advice and oversight through execution of the audit workplan, it is not responsible for the design and implementation of these frameworks.

Scope of Internal Audit Services & Activities

The following graphic illustrates the roles and range of input provided by Internal Audit



Audit Services

Audit services involve the Internal Auditor's objective assessment of evidence to provide an independent opinion or conclusion regarding a process, system or other subject matter. The nature and scope the "assurance" or "audit" engagements are determined by the Internal Auditor in consultation with the audit client or "Auditee".

Audit services may include some components from any one of, or each one of the following six (6) audit types.

Audit Types

- 1. *Operational Audits*** (aka performance audits, value for money audits, management audits). Operational audits objectively and systematically examine the City's programs, services and functions.
- 2. *Financial Audits*** include the review of financial processes. Cash control, accounts payable, payroll, inventory controls, and investment compliance are all examples of areas that may be reviewed in a financial audit.
- 3. *Compliance Audits*** are smaller in scope than operational audits and are designed to review and evaluate compliance with established policies and procedures as well as any and all relevant statutory and/or legal requirements.

Audit Types

- 4. *Information Systems Audits*** provide assurance that the City's information technology infrastructure and computer applications contain adequate controls and security to safeguard assets and mitigate risk.
- 5. *Fraud Investigations*** are audits that usually involve an examination of specific components of an operation or program normally identified from information received from various sources.
- 6. *Follow-up Audits*** the primary purpose of a follow-up audit is to provide assurance that the recommendations made in previous audit reports have been addressed and implemented.

Annual Audit Work Plan

Each year the Internal Auditor prepares a work plan, setting out the proposed schedule of audits and other undertakings proposed for the coming year. In order to generate this plan, the following sources are considered:

- Prioritization of the audit plan using a risk-based methodology.
- Requests from Council, senior management and staff.
- Any audits planned from previous year that were not executed.

The Internal Audit work plan is reviewed and discussed with the Executive Team. The Internal Audit Work Plan is then presented to the Audit Committee for review and approval.

Internal Audit Charter

The Internal Audit Charter defines the mandate, scope, authority, independence, responsibility, and reporting structure for the internal audit function. It is reviewed at least once during each term of Council.

Questions?

Enterprise Risk Management

Enterprise risk management (ERM) is a method or process used by an organization to manage risks and seize opportunities related to the achievement of their strategic and business objectives. ERM provides a framework for risk management, which typically involves identifying specific risks and opportunities, assessing them in terms of likelihood and magnitude of impact, determining a response strategy, and monitoring progress.

Enterprise Risk Management

The purpose of ERM includes;

- Provide guidance to advance the use of a more corporate and systematic approach to risk management.
- Contribute to building a risk-smart workforce and environment that allows for responsible risk-taking while ensuring legitimate precautions are taken to protect the Corporation, ensure due diligence and maintain the public trust.
- Establish a set of risk management practices that departments can adopt to their specific circumstances or mandate.

ERM Current State

Overall, the City's current ERM maturity is at a beginning level as characterized by the following:

- Limited ERM guidance exists in the form of a Policy and defined risk measurement and risk management practices to support the operationalization of ERM principles across the City.
- ERM capacity is limited due to the lack of a dedicated resourcing in the organization.
- Lack of clear and defined roles and responsibilities have resulted in a more decentralized approach to risk management across the organization.

ERM Current State

- In general, management understands their responsibility and accountability for risk management within their areas of control. However, there is a lack of understanding of how risk management should be exercised in practice at the department / business unit level and at a organizational-wide level consistently.
- Additional coordination and sharing of risk information would support the provision of a holistic view of risk across the City and help focus risk management actions more efficiently.

ERM Current State

Examples of risk management practices currently in place:

- Issues management tracking maintained by many departments including an entity level watchlist through Communications team.
- Project Management Office (PMO) Framework supporting all City projects.
- Purchasing department procurement policies.
- Entity wide business continuity plan.

ERM Current State

Examples of risk management practices currently in place:

- Within Finance, MYB vulnerability assessments to identify and mitigate negative impacts such as inflationary pressures, and reserve fund management
- Environmental Services Compliance & Performance team ensuring continued accreditation of water management services is maintained.

ERM Current State

More examples of risk management practices currently in place include:

- Information Technology Cyber program / readiness assessments.
- Legal risk services providing risk reviews and advice to internal departments including transferring of risks through insurance programs.
- City Clerk's Office governance oversight.
- Internal Audit operational risk self assessments used to guide annual audit workplan.

ERM Next Steps

- Integrating enterprise risk management practices throughout the City to improve decision-making in governance, strategy, objective setting, and day-to-day operations.
- Enhancing performance by linking strategic and business objectives to risk considerations.

Benefits of Enterprise Risk Management Integration with Strategy & Performance

- Increase the range of opportunities
- Increase positive outcomes while reducing negative surprises
- Identify and manage entity-wide risks
- Reduce performance variability
- Improve resource deployment

Source: COSO Enterprise Risk Management Integrating with Strategy and Performance, June 2017

Questions?