Audit Services Branch – Compliance with the Institute of Internal Auditors Standards for the Practice of Internal Auditing Report

May 2007

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1.0 Management Summary

We have completed an internal assessment with external validation of the York Region Audit Services Branch compliance with the Institute of Internal Auditors (IIA) Standards for the Professional Practice of Internal Auditing. The review was performed to help ensure that York Region Audit Services complies with the new IIA Standards introduced in January 2002.

We have concluded that overall, the York Region Audit Services Branch is in compliance with the IIA standards for the professional practice of internal auditing. However, we did note an opportunity for improvement, and have discussed the enhancement with Audit Services management. The opportunity includes updating the Audit Committee Charter to include the Audit Services Branch. The Audit Committee Charter was created in 1998, before the creation of the Audit Services Branch, and therefore does not reference the Audit Services Branch. The Audit Services Branch currently operates under the definitions, concepts, assumptions, and role as described in Report No. 4 of the Audit Committee, in a meeting held on October 11, 2000. The report was formally adopted on October 26, 2000 by Regional Council of the Regional Municipality of York. However, that report does not include items such as accountability, independence, responsibility, and authority.

Should the reader have any questions or require a more detailed understanding of IIA Quality Assurance Standard, please contact the Director, Audit Services.

2.0 Introduction

As part of our Audit Plan, the Audit Services Branch performed an internal assessment with external validation of the York Region Audit Services Branch compliance with the Institute of Internal Auditors (IIA) Standards for the Professional Practice of Internal Auditing. The review was performed to help ensure that York Region Audit Services complies with the new IIA Standards introduced in January 2002.

The York Region Audit Services Branch is responsible for assisting Regional Council, the Audit Committee, Senior Management and all Departments at York Region (except Police Services) in the effective and efficient discharge of their responsibilities. Audit Services assists the Region in achieving its goals by providing objective advice on managing and controlling risk, independent appraisals on control, and participating in an advisory capacity to identify efficiencies and improvements in new and existing processes, programs and services.

The IIA introduced new Standards to guide the practice of internal auditing in January 2002, as a response to internal audit increasingly being called upon by management to be a value-adding service in meeting the challenges in operating in today’s complex business environment. Compliance to the Standards is required for internal audit organizations to claim and publicize in their reports that they perform audits in compliance with the IIA Standards.

To establish whether an internal audit activity is in compliance with the Standards, the IIA introduced Standard 1300. The formal wording to this Standard is:

> **1300 — Quality Assurance and Improvement Program**
> *The chief audit executive should develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity and continuously monitors its effectiveness. The program should be designed to help the internal auditing activity add value and improve the organization's operations and to provide assurance that the internal audit activity is in conformity with the* Standards *and the* Code of Ethics*.*

Standard 1310 – Quality Program Assessment requires an audit organization to have an "independent" quality assessment every five years.

The purposes of the Quality Assessment (QA) Program are threefold:

1. *Assess the effectiveness of an IA activity in providing assurance and consulting services to management, the board, senior executives, and other interested parties.*
2. *Assess conformance to the Standards and provide an opinion as to whether the internal auditing activity generally conforms to all of them.*
3. *Identify opportunities, offer recommendations for improvement and provide counsel to the CAE and staff for improving their performance and services and promoting the image and credibility of the internal audit function.*

The York Region Audit Services Branch addressed each Standard independently and analyzed how its activities conformed, partially conformed, or did not conform to that individual IIA Standard. When a partial or non conformance was noted, Audit Services developed a plan to help ensure that conformance in that Standard was achieved. As a final step in the analysis, Audit Services assessed whether, on the whole, the Branch conformed to the IIA Standards.

To achieve the requirement for an independent quality assessment, Audit Services enlisted the assistance of Brook Laker & Associates to perform an independent review of our self assessment and our plans to achieve conformance when non- or partial conformance was noted. As part of their role, Brook Laker reviewed the supporting documents on how Audit Services achieves conformance to the Standard being addressed, examined samples of Audit Services documents to substantiate claims, and interviewed the necessary individuals. From this independent review, Brook Laker was able to form an opinion on whether, on the whole, York Region Audit Services complied with IIA Standards.

A copy of the independent validation report prepared by Brook Laker & Associates is provided in *Attachment 1* of this report.

3.0 Objectives and Scope

The IIA Standards for the Professional Practice of Internal Auditing are divided into two categories: Attribute and Performance. Each category is divided into individual standards and, in some cases, individual subsections. For example:

(Standard) 1110 – Organizational Independence

The chief audit executive should report to a level within the organization that allows the internal audit activity to fulfill its responsibilities.

(Subsection) 1110.A1 - The internal audit activity should be free from interference in determining the scope of internal auditing, performing work, and communicating results.

The objectives of this engagement included:

- Evaluating each individual section and subsection for conformity to the applicable referenced standard.
- Concluding each section on the degree of conformity to the standard using: 'Generally Conforms', 'Partially Conforms', or 'Does Not Conform'.
- Using Performance Standards, which provide additional guidance, as necessary.
- Including appropriate explanation / supporting documentation.
- Evaluating compliance to the IIA Code of Ethics. Consider the four principles and related rules of conduct, and conclude whether or not Audit Services management and staff uphold each of the principles, and apply the related rules of conduct.
- Evaluating whether the Internal Audit Charter generally conforms to applicable Standards, and secondly whether practices are consistent with the Charter.

The audit objectives were accomplished through:

- Discussion with the Director of Audit Services.
- Collection and examination of pertinent documentation.
- Examination of post audit survey results.

4.0 Detailed Observations and Recommendations

4.1 Audit Committee Charter Requires Updating

Observations

The Audit Committee Charter was created in 1998, before the Audit Services Branch was created. As a result, there is no mention of the Audit Services Branch within the Charter.

The Audit Services Branch currently operates under the definitions, concepts, assumptions, and role as described in Report No. 4 of the Audit Committee, in a meeting held on October 11, 2000. The report was formally adopted on October 26, 2000 by Regional Council of the Regional Municipality of York. However there is no mention of accountability, independence, responsibility, and authority.

Recommendations

Update the Audit Committee Charter to include reference to the Audit Services Branch and address subjects that include accountability, independence, responsibility, and authority.

Management Response

Audit Services will present an updated Audit Committee Charter to the York Region Audit Committee for their approval in Q4 2007.

Paul Duggan

Director Audit Services

Attachment 1

BROOK LAKER & ASSOCIATES

INDEPENDENT VALIDATION OF

YORK REGION INTERNAL AUDIT ACTIVITY'S SELF-ASSESSMENT

25 APRIL 2007

On behalf of the Institute of Internal Auditors (IIA), Brook Laker & Associates was engaged to conduct an independent validation of York Region internal audit activity's (IA activity) Audit Services Branch self-assessment. The primary objective of the validation was to verify the assertions made in the attached self-assessment report, concerning adequate fulfillment of the organization's basic expectations of the IA activity and its conformity to The IIA's *Standards for the Professional Practice of Internal Auditing (Standards)*. Other matters that might have been covered in a full independent assessment, such as an in-depth analysis of best practices, governance, consulting services, and use of advanced technology, were excluded from the scope of this independent validation by agreement with the chief audit executive (CAE).

In acting as independent validator, on behalf of The IIA, I am fully independent of the organization and have the necessary knowledge and skills to undertake this engagement. My validation, conducted between March 26 and April 24, 2007, consisted primarily of a review and testing of the procedures and results of the self-assessment. In addition, as an alternative to conducting interviews with York Region Senior Executive and the Audit Committee Chair, I reviewed the minutes of the 2006 quarterly reporting presented by the CAE to the Audit Committee.

From the results of my validation, I concur fully with the IA activity's conclusions in the self-assessment report attached.

The CAE should forward copies of this report, together with the self-assessment report, to the Audit Committee, and the Chief Administrative Officer, to whom the CAE reports administratively.

Brook Laker & Associates

Russell Gnyp

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25 April 2007

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