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COMPLIANCE WITH INSTITUTE OF INTERNAL AUDITORS PROFESSIONAL PRACTICE STANDARDS

The Audit Committee recommends the adoption of the recommendation contained in the following report, May 17, 2007, from the Director, Audit Services:

1. RECOMMENDATION

It is recommended that this report be received for information purposes by Audit Committee and Regional Council.

2. PURPOSE

This report provides an update to the June 8, 2006 request made by the Audit Committee to conduct a review of the Region's internal audit function as set out in the Audit Services Branch Three Year Audit Plan, consisting of a self-assessment based on the Institute of Internal Auditors Standards together with independent third-party verification.

3. BACKGROUND

The Institute of Internal Auditors (IIA) is an international professional association of more than 130,000 members with global headquarters in Altamonte Springs, Fla., United States. Throughout the world, The IIA is recognized as the internal audit profession's leader in certification, education, research, and technological guidance.

In January 2002 the IIA introduced new Standards to guide the professional practice of internal auditing. The new Standards were 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.

4. ANALYSIS AND OPTIONS

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:

- Assess the effectiveness of an IA activity in providing assurance and consulting services to management, the board, senior executives, and other interested parties.
- Assess conformance to the Standards and provide an opinion as to whether the internal auditing activity generally conforms to all of them.
- 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.

IIA Standards in partial or non- conformance have been detailed in the Audit Services Branch – Compliance with the Institute of Internal Auditors Standards for the Practice of Internal Auditing Report (*attachment 1*).

To achieve the requirement for an independent quality assessment, Audit Services enlisted the assistance of Brook Laker & Associates to perform an independent validation 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 validation, Brook Laker was able to form an opinion on whether, on the whole, York Region Audit Services complied with IIA Standards.

Brook Laker & Associates has provided their opinion in the Letter of Independent Validation of York Region Internal Audit Activity's Self Assessment. (*attachment 2*)

This letter is standard wording and format provided by the IIA to be used for self assessments with independent validation.

5. FINANCIAL IMPLICATIONS

The Audit Services Branch will manage its workload within the Audit Budget for 2007.

6. LOCAL MUNICIPAL IMPACT

There is no local municipal impact.

7. CONCLUSION

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.

(The attachment referred to in this clause was included in the agenda for the June 7, 2007 Committee meeting.)