



CITY COUNCIL AGENDA REPORT

Subject: COUNCIL MOTION – INTERNAL AUDITOR

On July 13, 2015 Councillor MacKay provided notice in accordance with Section 23 of Procedure Bylaw 35/2009 that he intended to bring forward the following motion:

In order for Council to debate the motion, the motion must be formally moved.

(Councillor MacKay)

That three business cases (or one business case with three options) be prepared for the 2016 Budget to contract the services of or hire an internal auditor for the remaining term of this Council , with renewal provisions for the next Council.

Business Case #1:

Internal audit services are retained through a private firm.

Business Case #2:

Internal audit service are negotiated and retained through the City of Edmonton's internal audit department through cost sharing or through a contract.

Business Case #3:

An internal auditor is retained as an employee.

Whereas:

In all cases following the successful inclusion of any of the business cases will require a bylaw making use of Section 210 of the MGA to ensure that in all cases the internal auditor has the independence from the Administration and reports solely to the public and to Council. In turn the Bylaw will also outline the scope of authority required to enable the internal auditor to perform the requisite duties.

Attachments:

1. Administrative Backgrounder

Originating Department(s):	Legislative Services
Author(s):	B. Gaskarth, Legislative Officer

City Manager Signature:

Date:

**Administrative Backgrounder
Internal Auditor**

On July 13, 2015 Councillor MacKay provided notice in accordance with Section 23 of Procedure Bylaw 35/2009 that he intended to bring forward the following motion:

In order for Council to debate the motion, the motion must be formally moved.

(Councillor MacKay)

That three business cases (or one business case with three options) be prepared for the 2016 Budget to contract the services of or hire an internal auditor for the remaining term of this Council , with renewal provisions for the next Council.

Business Case #1:

Internal audit services are retained through a private firm.

Business Case #2:

Internal audit service are negotiated and retained through the City of Edmonton's internal audit department through cost sharing or through a contract.

Business Case #3:

An internal auditor is retained as an employee.

Whereas:

In all cases following the successful inclusion of any of the business cases will require a bylaw making use of Section 210 of the MGA to ensure that in all cases the internal auditor has the independence from the Administration and reports solely to the public and to Council. In turn the Bylaw will also outline the scope of authority required to enable the internal auditor to perform the requisite duties.

BACKGROUND:

In order to provide some efficiency and effectiveness concerning the business cases, Administration will choose to bring forth one business case with the three options as noted in the motion.

In providing Council background information in relation to the Notice of Motion, additional background information concerning the Audit function highlighting core principles, definitions and the mission of an internal audit is presented for your consideration. The City of Edmonton and Calgary websites which highlight their respective office audits will be provided for additional background information around the organizational structure and function of their audit office. This will

provide Council added context as to the various components, along with the purpose and scope of an internal audit.

As noted by The Institute of Internal Auditors, a number of key principles are necessary in the implementation of an Internal Audit function. In all of the options a framework and work plan will be necessary in providing, the nature of the audit, timetable, expectations, estimated costs, and desired outcomes for any of the options.

Business case #2 will need to be included as a part of business case #1 as the nature of this procurement would not justify a sole sourcing. Since the City of Edmonton would be acting as an independent vendor they would need to provide a competitive bid within a defined RFP process. The RFP would include an audit plan, audit scope and desired outcomes, as defined by Council.

If an internal auditor was employed, assuming the conditions under the Municipal Government Act (MGA) are met, and depending on Councils direction, an audit plan and process would need to be established. Once in place the appropriate experts may need to be contracted depending on the nature of the audit. Once hired, the internal auditor will bring forth an audit plan and budget based on Council direction.

Due to the wide range of estimated costs for the various audit options and desired audit outcomes, it would be prudent to first establish a budget range as a part of the business cases.

Legal Implications

Historically, there has been some debate about whether an internal auditor may be appointed by Council to review and advise on various aspects of the City's current operations. The MGA simply indicates that the mandated annual financial audit, whereby the focus is on reviewing the annual financial statements and financial information return, cannot, in St. Albert's case, be performed by a councillor or employee. An internal review of a nature distinct from the mandated financial audit is not legislatively prohibited (whether the internal review is to be performed by an employee or a 3rd party). To avoid redundancy and potential conflict with the mandated financial audit, we recommend that the project scope be well-defined and distinct.

Additional Information

Internal Auditing, its Mission and Core Principles as defined by the Institute of Internal Auditors are as follows:

“Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Core Principles for the Professional Practice of Internal Auditing

The Core Principles, taken as a whole, articulate internal audit effectiveness. For an internal audit function to be considered effective, all Principles should be present and operating effectively. How an internal auditor, as well as an internal audit activity, demonstrates achievement of the Core Principles may be quite different from organization to organization, but failure to achieve any of the Principles would imply that an internal audit activity was not as effective as it could be in achieving internal audit's mission (see Mission of Internal Audit).

- Demonstrates integrity.
- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organization.
- Is appropriately positioned and adequately resourced.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance.
- Is insightful, proactive, and future-focused.
- Promotes organizational improvement

Mission of Internal Audit

The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organization. Its place in the New International Professional Practices Framework (IPPF) is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the Mission.

“To enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight.”

Below is a link to a study which was done by Price Waterhouse Coopers Advisor on the state of the internal audit profession.

http://www.pwc.com/us/en/internal-audit/assets/state_internal_audit_profession_study_07.pdf

Internal Audit Office of the Cities of Edmonton and of Calgary along with the Universities of Alberta and Ottawa

http://www.edmonton.ca/city_government/city_organization/city-auditor.aspx

<http://www.calgary.ca/AUDITOR/Pages/home.aspx>

http://disclosure.ualberta.ca/en/Internal_Audit_Services.aspx

<http://www.uottawa.ca/int-audit/>

Report Date	July 31, 2015
Committee/Department	Financial Services
General Manager Review	Mike Dion, GM & CFO