



**SUBJECT:** Internal audit resourcing

**TO:** Audit Committee

**FROM:** City Manager's Office

Report Number: CM-07-20

Wards Affected: Not Applicable

File Numbers: 430-01

Date to Committee: February 12, 2020

Date to Council: February 24, 2020

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**Recommendation:**

Direct the City Manager to initiate recruitment of an internal auditor as an in-house resource with functional reporting to the Audit Committee and administrative reporting to the City Manager as outlined in Option 1 of CM-07-20.

**PURPOSE:**

**Vision to Focus Alignment:**

- Deliver customer centric services with a focus on efficiency and technology transformation

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**Background and Discussion:**

After 10 years, the City of Burlington has a sustainable internal audit function. Given the transition of the current City Auditor to a new position, it is important to consider the different options available to ensure the City of Burlington continues to be supported by an internal audit function to suit its size and complexity as a municipality and an organization.

The Audit Committee has functional responsibility for the internal audit function as outlined in the General and Administrative section of the Audit Committee's terms of reference, specifically:

“Participate in the selection of a City Auditor and, pursuant to by-law 132-1991, City Council would consider recommendations for disciplinary suspension or dismissal of the City Auditor.”

Given this responsibility, management is providing 3 options for the Audit Committee to consider; yet is recommending Option 1 as the preferred option from management’s perspective.

### **Strategy/process**

The City of Burlington’s Office of the City Auditor Charter, dated February 13, 2017 and duly signed by the Audit Committee Chair, the City Manager and the City Auditor, states:

“The mission of the Office of the City Auditor is to enhance and protect organizational value by providing risk-based and objective assurance, advice, and insight. As such, 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.”

The International Standards for the Professional Practice of Internal Auditing provide clarity and interpretation of the two terms: independent and objective.

#### *Independence and Objectivity*

Standard 1100 provides “Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.”

“Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.”

Standard 1110 on organizational independence further provides “Organizational independence is effectively achieved when the chief audit executive reports

functionally to the board. Examples of functional reporting to the board involve the board:

- Approving the internal audit charter.
- Approving the risk-based internal audit plan.
- Approving the internal audit budget and resource plan.
- Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters.
- Approving decisions regarding the appointment and removal of the chief audit executive.
- Approving the remuneration of the chief audit executive.
- Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations."

For an internal audit function to be successful, not only are processes to be maintained and updated, the skills of the team must align with the specific needs of the business. It is important for any internal audit function to have strong communication and influencing skills. More so of late, given the current environment, there is a need for the internal audit function to understand new technologies and have awareness of the potential for cybercrime.

For the City, it is also important for the internal auditor to have attained Certified Internal Auditor (CIA) and Certified Fraud Examiner (CFE) accreditations. An added plus would be for the internal auditor to be a Certified Government Auditing Professional (CGAP) and/or have Certification in Risk Management Assurance (CRMA). These professional designations demonstrate the internal auditor has the necessary knowledge, skill and experience to effectively perform audit duties and support the City in its fraud management efforts.

### **Options Considered**

The options and the associated opportunities and risks to be considered for internal audit within the City of Burlington are:

1. Staff with in-house resource at Grade 14 - funding for audit services (\$38,800); functional reporting to the Audit Committee and administrative reporting to the City Manager. This option maintains status quo.

<b>Staff with in-house resource</b>	
<b>Opportunities</b>	<b>Risks</b>
Creates environment to develop working relationships and become	Reduces the ability to expand skill sets internal audit needs to pivot

<b>Staff with in-house resource</b>	
<b>Opportunities</b>	<b>Risks</b>
<p>a trusted advisor when it comes to risk, business, and operating strategies</p> <ul style="list-style-type: none"> <li>· Supports solid understanding of business/services as individual works within the City on a full-time basis.</li> <li>· Provides risk and consulting services without delay as individual works within the City on a full-time basis.</li> <li>· There is clear responsibility and accountability for the function</li> <li>· Follow up of in progress management action plans is maintained</li> <li>· City staff are more receptive to the audits and are willing to share problems faced in their work processes so that improvements could be made.</li> <li>· Staff view the internal auditors being more trustworthy to help in making needed improvements</li> <li>· Maintains independence</li> </ul>	<p>to meet stakeholder demands for assurance related to emerging risks</p>

2. Staff with in-house resource at Grade 13 or lower and co-source with an external provider (on multi-year contract basis) using salary differential (≈\$18,000 or more) plus current audit services budget (\$38,800); functional reporting to the Audit Committee and administrative reporting to the City Manager.

<b>Staff with in-house resource and co-source</b>	
<b>Opportunities</b>	<b>Risks</b>
<ul style="list-style-type: none"> <li>· Creates environment to develop working relationships and become</li> </ul>	<ul style="list-style-type: none"> <li>· Potential for confusion about responsibility and accountability</li> </ul>

<b>Staff with in-house resource and co-source</b>	
<b>Opportunities</b>	<b>Risks</b>
<p>a trusted advisor when it comes to risk, business, and operating strategies</p> <ul style="list-style-type: none"> <li>· Supports solid understanding of business/services as individual works within the City on a full-time basis.</li> <li>· Provides risk and consulting services without delay as individual works within the City on a full-time basis.</li> <li>· There is clear responsibility and accountability for the function</li> <li>· Follow up of in progress management action plans is maintained</li> <li>· Enables City to top up skill sets</li> <li>· Enables City to gain access to innovation in tools, audit techniques, thought leadership and benchmarking</li> <li>· City staff are more receptive to the audits and are willing to share problems faced in their work processes so that improvements could be made.</li> <li>· Staff view the internal auditors being more trustworthy to help in making needed improvement</li> <li>· Maintains independence</li> </ul>	<ul style="list-style-type: none"> <li>· A lack of cultural fit if the external provider isn't aligned to the City</li> <li>· Lowering position grade may impact ability to attract and retain skilled internal auditor</li> <li>· Funding may not secure sufficient hours to provide necessary resources to perform or assist in audits</li> </ul>

3. Contract as managed service with an external provider with functional reporting to the Audit Committee.

<b>Managed Service</b>	
<b>Opportunities</b>	<b>Risks</b>
<ul style="list-style-type: none"> <li>· It provides a flexibility in staffing resources.</li> <li>· Access to significantly greater resources, immediate execution of work using pre-existing methodologies, plus greater objectivity and independence.</li> <li>· The City benefits from the access to experts and specialists that can also help in providing a key insight for achieving the goals of the business.</li> <li>· Frees up FTE count by 1</li> <li>· Maintains independence</li> </ul>	<ul style="list-style-type: none"> <li>· Service provider does not develop working relationships within the City and is not viewed as resource for advice and counsel</li> <li>· Affordability and return on investment may not be realized.</li> <li>· No in house expertise to manage the service level agreements and the contracts effectively with the external service provider to ensure provision of services meets needs.</li> <li>· A risk of confusion over accountability and responsibility; especially in the coordination and follow up of management action plans</li> <li>· The outsourcer will be at a disadvantage with lack of internal knowledge about the City's culture and working environment. It will take some time to get used to the whole processes and the system of the entity.</li> <li>· Re-allocated cost of in-house audit function may not secure sufficient hours to provide necessary audits</li> <li>· May need to enter into longer term contract to secure reasonable rates (refer all other risks for additional impact)</li> <li>· A lack of cultural fit if the external provider isn't aligned to the City</li> </ul>

## **Financial Matters:**

### **Total Financial Impact**

Office of City Auditor budget remains as planned for 2020.

### **Source of Funding**

Established operating budget.

### **Other Resource Impacts**

Not Applicable

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## **Climate Implications**

Not applicable.

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## **Enterprise Risk:**

Not applicable.

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## **Engagement Matters:**

The Strategy & Risk Team considered the options and reached consensus on the recommended option.

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## **Conclusion:**

Management recognizes the benefits of having an in-house internal audit function that is independent and objective. To this end, we recommend the Audit Committee direct the City Manager to execute a recruitment to fill the current internal auditor vacancy. It is clear and understood the internal auditor will report functionally to the Audit Committee and administratively to the City Manager.

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Respectfully submitted,

Sheila M. Jones, CIA, CFE, CRMA

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**Report Approval:**

All reports are reviewed and/or approved by Department Director, the Chief Financial Officer and the Executive Director of Legal Services & Corporation Council. Final approval is by the City Manager.