



---

# Audit Committee Roles and Responsibilities

November 17, 2008

---



Office of the City Auditor  
Room 1000, Chancery Hall  
3 Sir Winston Churchill Square  
Edmonton, Alberta, T5J 2C3

Phone: 780-496-8315

Fax: 780-496-8062

E-mail: [david.wiun@edmonton.ca](mailto:david.wiun@edmonton.ca)

Website: <http://www.edmonton.ca/auditor>

## Introduction

Municipal governments are entrusted with providing services within approved budget amounts in an environment of transparency, accountability, and responsibility. Moreover, every citizen wants high-quality services from public sector organizations. In today's environment, Audit Committees play a critical role in organizational oversight. Their role includes oversight of financial reporting, risk management, management's internal controls, organizational values and ethics as well as overseeing the activities of external and internal audit.

The *Procedures and Committees Bylaw* (see Appendix A) and the *City Auditor Bylaw* (see Appendix B) have positioned the Office of the City Auditor (OCA) to coordinate the development and delivery of information materials to assist the Audit Committee fulfill its oversight responsibilities.

This document is intended to serve as a reference for Audit Committee members and other members of Council when considering Audit Committee issues.

## Governance Relationships

### Legislation

The Municipal Government Act (MGA) establishes Council's principal roles and sets out its general powers and duties. The MGA provides Council the authority to establish and delegate responsibilities to Committees. Bylaw 12300, *Procedures and Committees Bylaw*, establishes the framework for governing the City of Edmonton and establishes the Standing Committees of Council. Key sections of the Bylaw regarding Audit Committee include:

- Section 147 - establishes the Audit Committee as a Council Standing Committee.
- Section 165.1 establishes the Audit Committee membership
- Section 165.2 states the Audit Committee Duties and Functions.

Many of the Duties and Functions of the Audit Committee are related to the City Auditor. The City Auditor position, duties and functions are established through Bylaw 12424, *City Auditor Bylaw*.

## City Council

As the governing body of the City of Edmonton, one of Council's principle duties is to participate in developing and evaluating the municipality's policies and programs. To help fulfill that role, Council created an Audit Committee as a standing committee and established the City Auditor position. Through the Procedures and Committees Bylaw and the City Auditor Bylaw, Council has delegated certain responsibilities to the Audit Committee and established the duties, functions and reporting relationship of the City Auditor. Council retains all authority unless delegated to the Audit Committee by bylaw.

With regard to Audit Committee activities, Council has retained the authority to approve recommendations made by the audit committee about:

- the work plans of the City Auditor and External Auditor,
- the City Auditor's annual budget request,
- the appointment, reappointment, or dismissal and fees of the External Auditor,
- the City Auditor's annual report and long term work plan,
- the External Auditor's report related to the City's annual audited financial statements,
- any action, investigation, or analysis it wishes the City Auditor to undertake,
- changes to corporate governance documents and practices as appropriate, and
- any amendments to Division 4 of the Procedures and Committees bylaw

Council is also responsible to appoint an individual to the position of City Auditor, and establish the terms and conditions of such appointment.

## Audit Committee

As stated above, City Council established Audit Committee as a Standing Committee of Council through Bylaw 12300, *Procedures and Committees Bylaw*. Its membership is the same as Executive Committee, meaning that the Mayor serves as Chair and the four members of Council rotate each year so that each member of Council serves on Audit Committee during the three-year term of Council.<sup>1</sup> Council has delegated certain responsibilities to the Audit Committee through the *Procedures and Committees Bylaw* and the *City Auditor Bylaw*.

Under the terms of the *Procedures and Committees Bylaw* and the *City Auditor Bylaw*, the City Auditor and the External Auditor both report directly to Council through Audit Committee. The Audit Committee is responsible for providing oversight and consideration of audit matters brought forward by the City Auditor, the External Auditor, and the Administration. Council has ensured the independence of the City Auditor and the External Auditor by establishing a direct link between the audit function and

---

<sup>1</sup> The City of Edmonton's Audit Committee structure will change in 2009 to include the addition of two public members. City Council passed a motion on September 17, 2008 that the Administration bring forward amendments to the Procedures and Committees Bylaw 12300, which would add one person with a professional accounting designation and one citizen-at-large. The Office of the City Clerk is currently working on the required changes to Bylaw 12300.

Councillors. This direct reporting relationship to Audit Committee and Council ensures both the independence of the internal and external audit functions from the Administration and the appropriate consideration of audit findings and recommendations. This independence from the Administration is necessary to ensure public confidence in the results of audits and to demonstrate both actual and perceived independence.

## City Auditor

Bylaw 12424, *City Auditor Bylaw*, establishes the City Auditor as a designated officer in accordance with the Municipal Government Act. The City Auditor is accountable to Council for the exercise of all powers, duties, and functions delegated to the position. The City Auditor is responsible for conducting projects directed primarily toward providing assurance through review of existing operations, typically focussing on compliance, efficiency, effectiveness, economy, and controls. The City Auditor is also charged with providing proactive, forward-looking projects that are focussed on strategic, risk and control-related consulting services to better serve the changing needs of the City and help bring about improvement in program performance.

## Audit Committee Roles

There are a number of major roles with which Audit Committees are charged, including monitoring the administrative processes related to:

- Control Assessment;
- Financial Accuracy;
- Effective use of Internal Auditing;
- External Auditor Oversight; and
- Risk Management.

Audit committees monitor these processes by working closely with senior organization staff members such as the City Manager, Chief Financial Officer, and the City Auditor. The Audit Committee should also have robust discussions with the External Auditors.

## Control Assessment

City Council, through its Audit Committee, provides guidance and oversight and monitors the effectiveness of the overall internal control system within the Corporation. Internal controls are processes designed by management to provide reasonable assurance that the organization's objectives are accomplished. Internal controls include the organization's plans and management's coordinated methods to safeguard assets, ensure the accuracy of financial data, promote operational efficiency and promote adherence to stated policies.

An effective assessment of the City's control processes includes a means for assessing and reporting on not only financial controls, but also controls throughout the Corporation. The City Manager is ultimately responsible for the operation and effectiveness of internal control systems. The City Auditor evaluates the effectiveness of the internal control systems through periodic testing and assessment, with the results being reported to Council and Audit Committee. The Audit Committee monitors internal control processes in a number of ways, including:

- Reviewing the results of both internal and external audits. The Audit Committee ensures that significant findings and recommendations made by the City Auditor and the External Auditor are received, discussed and acted upon in a timely manner.
- Evaluating whether management is setting the appropriate "tone at the top." The core of any business is its people and the environment in which they operate. The attributes of the individuals that make up an organization are the strongest elements of a control environment. Without personal integrity, ethical values and competence, an organization's control activities will be of little use. The "tone at the top" and underlying cultural values establish an environment that impacts (either positively or negatively) the effectiveness of an organization's control activities.
- Assuring itself that the City's fraud prevention and detection program is effective.

### **Financial Accuracy**

One of the major responsibilities of the Audit Committee is to consider the annual external audit of the financial statements of the City and oversee the integrity of the financial statements. Municipal financial statements are quite complex and are significantly different from private sector financial statements. If the Audit Committee is to fulfill its responsibility of ensuring the accuracy of the City's financial statements, the Audit Committee should:

- Understand and scrutinize the financial statements and question any issues that are unclear and follow up on matters of concern,
- Be conversant with financial reporting in the municipal sector including the completeness of financial disclosures, significant accounting policy changes, the thresholds of materiality, and key estimates versus historical data, and
- Be able to discuss the areas most susceptible to fraud.

### **Effective Use of Internal Auditing**

Internal auditing is an independent, objective assurance and consulting activity designed to add value to 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.

Audit Committees function best when they have productive relationships with management and internal audit — with open, candid, and ongoing lines of communication. The Audit Committee and the Office of the City Auditor (OCA) are

interdependent and should be mutually accessible, with the OCA providing objective opinions, information, and support to the Audit Committee and the Audit Committee providing validation and oversight to the OCA.

The Audit Committee monitors internal auditing processes in a number of ways, including:

- Reviewing any reports issued by the OCA, including completed projects, projects in progress, and the status of audit findings.
- Ensuring that management takes appropriate corrective action in response to recommendations made in OCA reports.
- Reviewing the work plan of the OCA. The City Auditor prepares an annual work plan based on an evaluation of risk. This work plan is provided to the Audit Committee for information and input. Areas of concern identified by the Audit Committee and management are considered during the development of the work plan and may be included in the plan, depending on risk-based priorities. This work plan is intended to be flexible and may be amended depending on emerging priority issues.
- Reviewing the budget and staffing of the OCA through inquiry with the City Auditor.
- Ensuring that the OCA demonstrates professionalism and competency. *The International Standards for the Professional Practice of Internal Auditing (Standards)* outline the tenets of the internal audit profession. These standards are the internationally accepted criteria by which the operations of internal audit departments around the world are evaluated and measured. The internal audit activity must conduct itself in accordance with the *Standards*. In 2006, an independent external review of the OCA resulted in award of the highest available rating and confirmed that Edmonton's City Auditor follows the *International Standards for the Professional Practice of Internal Auditing*.
- Meeting privately with the City Auditor to discuss any sensitive matters.

## External Auditor Oversight

The purpose of the external audit is to add credibility to an organization's financial statements. Credibility is needed because financial statement users often do not have the ability to independently determine whether the statements actually reflect underlying business transactions in accordance with existing standards for financial statement preparation. The objective of an audit of financial statements is to enable the External Auditor to express an opinion whether the financial statements are prepared, in all material aspects, in accordance with requirements for financial reporting and within a predetermined level of accuracy (materiality). The Audit Committee is responsible for monitoring the external auditing processes in a number of ways, including:

- Understanding the level of responsibility assumed by the External Auditors under generally accepted auditing standards. To help meet this objective, Audit Committee members should be reviewing the External Auditors' proposed audit scope and approach to determine the extent to which the External Auditors will be assessing controls, computer systems and applications.

- Reviewing the audit and non-audit services provided by the External Auditors. In reviewing and confirming the independence of the External Auditors, the Audit Committee should review the External Auditors' written assertion of independence provided in accordance with generally accepted auditing standards and meet with the External Auditors to discuss their independence.
- Reviewing the performance of the External Auditors and their capabilities, resources, and personnel assigned to the audit. The Audit Committee should be satisfied with the External Auditors' ability to clearly, candidly and effectively communicate issues and concerns, and with the lead partner's diligence, capability and professionalism.

## Risk Management

Enterprise risk management has emerged as an important means of identifying the critical risks organizations face — for example, reputation, ethics, e-business, health, safety and environmental risks, as well as financial and insurable hazard exposures — and then appropriately managing and optimizing that portfolio of risks. The Audit Committee's role is to help bring clarity to the assessment of the processes used to manage risk within the City. It does so by reviewing reports dealing with risk management activities and by asking probing questions about those activities.

## Audit Committee Responsibilities

This section presents the Audit Committee responsibilities as defined in Section 165.2 of Bylaw 12300, *Procedures and Committees Bylaw*. Each of these responsibilities assists Audit Committee in fulfilling its governance mandate as it carries out the five specific roles outlined in the previous section. We have provided a short description of what can be expected under each of the responsibilities defined in the Bylaw (the bolded headings below).

### Section 165.2

#### **(a) The Audit Committee reviews and makes recommendations to Council about:**

##### **(i) The annual work plans of the City Auditor and External Auditor**

###### **City Auditor's Annual Plan**

Each year, the OCA evaluates potential projects in light of the level of risk that they are likely to pose to the City. From that evaluation and available staff time, the City Auditor develops an Annual Work Plan and presents it to Audit Committee in November<sup>2</sup>. The Audit Committee discusses the plan and makes recommendations to City Council regarding approval of the City Auditor's Annual Work Plan. Once the Annual Plan is approved by Council the City Auditor then assigns resources to complete those projects in the upcoming year. Items can be

---

<sup>2</sup> The OCA's 2009 Annual Work Plan will be discussed at the November 25, 2008 Audit Committee meeting.

added to the City Auditor's Annual Work Plan as required by the City Auditor or by Council as a whole.

The scope of the OCA's activities includes the performance of financial, operational, comprehensive, and information systems reviews of activities conducted by the Administration. We also conduct proactive and forward-looking projects that are focused on the provision of strategic, risk, and control related advisory services. Projects typically focus on compliance, controls, efficiency, effectiveness, and economy in order to systematically evaluate and improve the effectiveness of risk management, control, and governance processes. Types of audit projects include: Comprehensive Branch Reviews, Governance Process Reviews, Corporate Reviews, Cash-Handling Reviews, Compliance Reviews, Information Technology Reviews, Investigations and Follow-up Reviews.

Since audit plans must have a degree of flexibility to accommodate emerging issues (either within approved projects or newly identified projects), Audit Committee may approve modifications requested by the City Auditor to the approved annual work plan.

#### **External Auditor's Annual Plan**

In November of each year, the City's External Auditor provides Audit Committee with an audit plan for the upcoming audit of the current financial statements. This plan provides an overview of the External Auditor's responsibilities, timetable for reporting the results of their audit, and the scope of their planned activities.

The External Auditor focuses on providing assurance to Audit Committee that the City's financial statements fairly reflect the financial position of the City and the results of its financial activities. The Administration prepares the City's financial statements, which are then reviewed and tested by the External Auditor. The Administration is responsible for the systems that are used to track, record, and report on financial information related to the City's activities and for timely preparation of annual financial statements. The External Auditor is responsible for auditing those financial statements and providing its independent opinion on the fairness of those statements.

#### **(ii) The City Auditor's annual budget request**

The City Auditor submits an annual budget request to Audit Committee for its review and recommendation to Council. The Office of the City Auditor's budget request is then included in the normal City budget approval process. The OCA's approved budget for 2008 was \$1.8 million.<sup>3</sup> The OCA has an authorized staff complement of 15 full-time equivalent positions.

---

<sup>3</sup> The OCA has submitted its 2009 budget documents through the administrative budget process for formal consideration during City Council's 2009 Budget deliberations. We have implemented a number of processes over the past few years to improve our efficiency and effectiveness. We have also completed a detailed line-by-line review of our costs to see where we could operate more economically. This exercise resulted in a cost containment budget for the 2009 year. In 2009, we are proposing a budget that is approximately \$5,000 lower than our 2008 budget.

**(iii) The appointment, reappointment, or dismissal and the fees of the External Auditor**

The Administration and the OCA work together to identify the best-evaluated firm to conduct the City's annual financial statement audit. We jointly prepare a recommendation to Audit Committee for its consideration and recommendation to City Council for approval. This process follows the city's tendering process and typically repeats on a five-year cycle. The firm of Deloitte & Touche LLP currently provides audit services to the City of Edmonton.

**(iv) The City Auditor's annual report and long term work plan**

In the spring of each year, the City Auditor submits an annual report to Council through Audit Committee. The annual report summarizes the activities of the Office of the City Auditor for the prior year, including a summary of activities related to the fraud and misconduct hotline.

The City Auditor's long-term work plan currently focuses on the Branch Audits. Each year, the City Auditor conducts a re-evaluation of the branch operations within the City and selects three branches for detailed evaluation and includes them in the annual work plan. The remaining branch operations are sequenced according to their ratings.

**(v) The External Auditor's annual report related to the City's audited financial statements**

In April, one of the major responsibilities of Audit Committee is to review and discuss the implications of the External Auditor's report and recommendations, paying particular attention to any issues of concern. Municipal government financial statements tend to be more complex than those of private sector businesses and require particular diligence when reviewing the financial statements and auditors' report.

**(vi) Any action, investigation, or analysis it wishes the City Auditor to undertake**

If Audit Committee decides it would like the City Auditor to conduct a special project (i.e., a project not in the City Auditor's approved annual work plan), it must make a recommendation to City Council to direct the City Auditor to conduct that project. Depending on the resources available, the City Auditor may request a modification of the approved annual work plan to accommodate the special project.

**(vii) Changes to corporate governance documents and practices as appropriate**

Some audit reports may contain recommendations that would impact corporate governance practices. Those recommendations may or may not require changes to governance documents (e.g., bylaws or policies) if adopted. If Audit Committee chooses to support those recommended changes, it recommends them to Council for approval.

**(viii) Any amendment to this Division of the bylaw**

The Audit Committee, City Auditor, the External Auditor, or the Administration may recommend updates or changes to the terms of Section 165 of Bylaw 12300, *Procedures and Committees*, to Council for approval.

**(b) The Audit Committee receives reports for information****Reports from the City Auditor**

All members of Council receive reports from the City Auditor. Upon completion, the City Auditor's reports are forwarded to Members of Council and are then available for discussion at a subsequent Audit Committee meeting. The OCA operates under a public reporting protocol that requires audit reports to be issued publicly unless a specific exemption to disclosure exists under the *Freedom of Information and Protection of Privacy Act* (FOIP). In addition to being distributed to members of City Council, reports are also distributed to the City Manager, the operational area(s) reviewed, and posted to the OCA website (<http://www.edmonton.ca/auditor>).

The City Auditor issues a variety of reports including reports on branch audits (audits of a branch operation within a department), information technology audits, City-wide process audits (e.g., accounts payable, purchasing processes), cash-handling audits, investigations (e.g., employee fraud, contractor fraud), and specific audit topics (e.g., audits of specific contracts or processes). Audit reports normally contain recommendations and management action plans to implement the recommendations. The City Auditor schedules follow-up reviews to determine the degree to which management has implemented the recommendations that are outlined in OCA reports that have been accepted by Audit Committee.

The City Auditor will determine which reports are presented as standalone reports (e.g., branch audit reports and projects of special interest such as the 23<sup>rd</sup> Avenue & Gateway Boulevard Interchange Project Review) for discussion at Audit Committee and which ones will be aggregated into a periodic *OCA Summary Report* for discussion at Audit Committee. All reports included in an *OCA Summary Report* at a specific Audit Committee meeting are also open for discussion. This summary report provides the Audit Committee with an overview of the OCA activities that have not been previously submitted to Audit Committee for discussion. The report may also include a status report of progress against the approved audit plan or significant deviations from the approved budget.

**Reports from the External Auditor**

Following the External Auditor's report on the City's annual financial statements, the External Auditor provides a management letter that is reviewed and responded to by the Administration. The management letter typically contains observations and recommendations to improve internal controls and the presentation and reasonableness of the City's financial statement for future years. The management letter is typically presented to Audit Committee by the External Auditor a few weeks after completion of the financial statement audit. Audit Committee is responsible to ensure that those

recommendations are acted on appropriately by the Administration and in a timely manner.

**(c) The Audit Committee interacts with the City Auditor, the External Auditor, and the Administration to satisfy itself that audit recommendations and management action plans are reasonable responses to observed conditions**

Four to six Audit Committee meetings are normally scheduled each year. All members of Council are encouraged to read all audit reports and to attend Audit Committee meetings. Audit Committee meetings provide the opportunity to ask questions to clarify the auditor's observations and recommendations, and to evaluate management's responses to those recommendations. If Audit Committee is not satisfied with Management's action plans, they can make recommendations to Council to provide specific direction.

**(d) The Audit Committee reviews the selection process for the External Auditor**

The Administration and the OCA work together to periodically conduct public tenders to select a public audit firm to serve as the City's External Auditor and recommend the best-evaluated firm to City Council through Audit Committee. The term of the contract is typically five years with an option to renew. The last tender for external audit services was in 2004. The resulting contract was awarded to Deloitte & Touche LLP to provide external audit services for the fiscal years 2004 through 2008. The contract will expire in 2009 following the audit of the 2008 fiscal year financial statements.

**(e) The Audit Committee reviews and analyzes the City's financial statements**

The City's financial statements are presented to the Audit Committee for review and analysis. To fulfill this responsibility, the Audit Committee should have an understanding of the financial statement preparation process, as well as key assumptions, forecasts, and accounting policies applied to prepare those statements. This requires financial expertise which can be a challenge for Audit Committees as the availability of that expertise is dependent on the backgrounds of the Councillors appointed to the Committee. Some municipalities address this challenge by engaging one or more independent financial experts to serve as additional Committee members or advisors to the Audit Committee.<sup>4</sup>

**(f) The Audit Committee approves modifications to the annual work plans as requested by the City Auditor and the External Auditor**

Occasionally, events will occur that require more time or resources than available for a specific project. If the additional time or resources will result in the City Auditor or External Auditor being unable to complete their annual work plan, the City Auditor or External Auditor will present a proposed change to the Audit Committee. The Audit Committee will review the rationale for the change and consider approving modifications to the annual work plan.

---

<sup>4</sup> As indicated on Page 2, City Council passed a motion on September 17, 2008, which would ensure that Audit Committee include at least one outside member with a professional accounting designation.

**(g) Repealed**

Section 4, Bylaw 14130 (passed on November 1, 2005) repealed the Audit Committee responsibility, “solicits and co-ordinates input from all Councillors regarding the performance review of the City Auditor.” The annual performance review of the City Auditor is now coordinated by the City Manager and City Auditor Performance Review Committee of Council.

**(h) The Audit Committee reviews and evaluates the results of periodic peer reviews of the Office of the City Auditor**

City Auditor Bylaw 12424, states that “the City Auditor will arrange for peer reviews at intervals not to exceed five years.” (Section 11(1)) Bylaw 12424 also states that “the City Auditor must follow generally accepted standards for the professional practice of audits.” (Section 17(2))

Edmonton’s City Auditor follows the *International Standards for the Professional Practice of Internal Auditing*, established by the Institute of Internal Auditors (IIA). These standards are the internationally accepted criteria by which the operations of internal audit departments around the world are evaluated and measured.

The Office of the City Auditor’s most recent peer review was conducted in 2006. The objective of this review was to have an independent validation of our compliance to the Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*. The 2006 peer review resulted in the Office achieving the highest possible rating to both the IIA’s Attribute and Performance Standards, as well as to the Code of Ethics. The next peer review will be completed in 2010/2011. These periodic peer reviews are separate from the annual performance review of the City Auditor.

**(i) The Audit Committee conducts an annual review of this Division of this bylaw to ensure that this Committee continues to be an effective governance instrument**

Through this document and the Audit Committee orientation, the Audit Committee reviews their responsibilities as defined in Section 165.2 of Bylaw 12300, *Procedures and Committees Bylaw*. The Audit Committee may recommend updates or changes to Council for approval.

## Conclusion

Audit Committees are an integral part of an organization’s control and governance structure. When functioning well, they provide assurance that the organization’s financial, risk management, governance, and operational systems are operating with a reasonable degree of effectiveness, efficiency, and economy and that the organization is operating in compliance with applicable laws, regulations, and policies.

This document is intended to serve as a reference for Audit Committee members and other members of Council when considering Audit Committee issues. A well-informed, responsible audit committee provides accountability and helps instil public confidence in an organization.

## Appendix A – Excerpts from Bylaw 12300, Procedures and Committees Bylaw Related to Audit Committee

### COUNCIL STANDING COMMITTEES

- 147 The following Council Standing Committees are established:
- (a) Agenda Review Committee;
  - (b) Executive Committee;
  - (c) Transportation and Public Works Committee;
  - (d) Community Services Committee;
  - (e) Council Services Committee;
  - (f) Quasi-Judicial Standing Committee and,
  - (g) Audit Committee and
  - (h) City Manager and City Auditor Performance Evaluation Committee.

(S.4, Bylaw 13217, November 26, 2002) (S.2, Bylaw 14130, November 01, 2005)

### AUDIT COMMITTEE MEMBERS

- 165.1 Members of the Executive Committee are members of the Audit Committee, and the Chair and Vice Chair of the Executive Committee shall be the Chair and Vice Chair of the Audit Committee.

### DUTIES AND FUNCTIONS

- 165.2 The Audit committee:
- (a) reviews and make recommendations to Council about:
    - (i) the annual work plans of the City Auditor and External Auditor,
    - (ii) the City Auditor's annual budget request,
    - (iii) the appointment, reappointment, or dismissal and the fees of the External Auditor,
    - (iv) the City Auditor's annual report and long term work

- plan,
- (v) the External Auditor's annual report related to the City's audited financial statements,
  - (vi) any action, investigation, or analysis it wishes the City Auditor to undertake,
  - (vii) changes to corporate governance documents and practices as appropriate, and
  - (viii) any amendments to this Division of this bylaw.
- (b) receives reports for information;
  - (c) interacts with the City Auditor, the External Auditor, and the Administration to satisfy itself that audit recommendations and management action plans are reasonable responses to observed conditions;
  - (d) reviews the selection process for the External Auditor;
  - (e) reviews and analyzes the City's financial statements;
  - (f) approves modifications to the annual work plans as requested by the City Auditor and the External Auditor;
  - (g) Repealed (S.4, Bylaw 14130, November 01, 2005)
  - (h) reviews and evaluates the results of periodic peer reviews of the Office of the City Auditor; and
  - (i) conducts an annual review of this Division of this bylaw to ensure that this Committee continues to be an effective governance instrument.

(S.5, Bylaw 13217, November 26, 2002)

## Appendix B – Bylaw 12424 - City Auditor Bylaw

**Whereas**, pursuant to section 210 of the *Municipal Government Act*, S.A. 1994, c. M-26.1, Council may establish a position to carry out the powers, duties and functions of a designated officer;

**And whereas**, pursuant to section 203 of the *Municipal Government Act*, Council may by bylaw delegate any of its powers, duties and functions to a designated officer;

**And whereas**, pursuant to section 211 of the *Municipal Government Act*, Council may revoke with or without cause the appointment of a person to the position of a designated officer, subject to any written agreement between the municipality and the officer;

**And whereas**, pursuant to section 280 of the *Municipal Government Act*, Council must appoint one or more auditors for the municipality, “External Auditors,” separate and distinct from an internal auditor;

Edmonton City Council enacts:

### PART I - PURPOSE, DEFINITIONS AND INTERPRETATION

- |                    |   |  |
|--------------------|---|--|
| <b>PURPOSE</b>     | 1 | The purpose of this bylaw is to establish the position of City Auditor and to delegate powers, duties, and functions to that position.   |
| <b>DEFINITIONS</b> | 2 | In this bylaw, unless the context otherwise requires: <ul style="list-style-type: none"> <li>(a) <b>“Administration”</b> means the general operations of the City, including all personnel, financial and other related resources, as permitted by the <i>Municipal Government Act</i>, but excluding the operations of the Office of the City Auditor ;</li> <li>(b) <b>“Annual Work Plan”</b> means the annual plan approved by Council listing audits, investigations, studies, follow-up and other projects to be performed by the City Auditor;</li> <li>(b.1) <b>“Audit Committee”</b> means the Standing Committee established under Bylaw 12300, Procedures and Committees Bylaw,</li> <li>(c) <b>“City”</b> means the municipal corporation of the City of Edmonton;</li> <li>(d) <b>“City Auditor”</b> means the person appointed pursuant to</li> </ul> |

section 5 of this bylaw;

- (e) **“City Manager”** means the Chief Administrative Officer of the City within the meaning of the *Municipal Government Act* or his delegate;
- (f) **“City Agency”** includes all agencies, boards and commissions established by Council;
- (g) **“Civic Agency”** includes all agencies, boards and commissions to which Council makes appointments;
- (h) **“Council”** means the municipal council of the City of Edmonton;
- (i) **“Councillor”** includes the mayor;
- (j) **“Employee”** includes an individual employed by the City, including those employed on a personal services agreement, but does not include volunteers, those retained by the City on a professional services agreement, civic agency, board or committee members not employed by the City, elected officials and their assistants;

(S.2, Bylaw 14325, June 20, 2006)

- (k) **“External Auditor”** means the person appointed pursuant to section 280 of the *Municipal Government Act*;
- (l) **“Person”** includes an individual, partnership, association, corporation, trustee, executor, administrator or legal representative;
- (m) **“Program”** means an activity:
  - (i) designed to improve social, economic or environmental conditions in a society;
  - (ii) related to the delivery of City services; or
  - (iii) internal to the City administration to improve employee conditions; and
- (n) **“Special Project”** means any project not listed in the Annual Work Plan.

purposes only.

## PART II - APPOINTMENT AND DELEGATION

<b>DESIGNATED OFFICER</b>	4	The position of designated officer for the purpose of internal auditing is established, and the individual appointed to that position will have the title “City Auditor.”
<b>APPOINTMENT OF CITY AUDITOR</b>	5	Council will, by resolution, appoint an individual to the position of City Auditor, and establish terms and conditions of such appointment.
<b>INDEMNITY</b>	6	The City will indemnify the City Auditor, provided that the City Auditor acts in the course and scope of his employment, and acts in good faith to comply with any applicable bylaw, statute or enactment.
<b>SUBDELEGATION</b>	7	The City Auditor is authorized to further delegate, and to authorize further delegations of any powers, duties, and functions delegated to the City Auditor to any employee in the Office of the City Auditor including appointment of an Acting City Auditor.
<b>ACCOUNTABILITY</b>	8	Notwithstanding Bylaw 12005, City Administration Bylaw, the City Auditor is accountable to Council for the exercise of all powers, duties, and functions delegated to the City Auditor.

## PART III – ROLES AND DUTIES

<b>ROLES</b>	9	<p>The City Auditor will have two roles:</p> <ul style="list-style-type: none"> <li>(a) Agent of Change Role – proactive and forward-looking projects focused on provision of strategic, risk and control-related consulting services to better serve the changing needs of the corporation and help bring about improvement in program performance; and</li> <li>(b) Guardian Role – projects directed primarily towards providing assurance through review of existing operations, typically focussing on compliance, efficiency, effectiveness, economy, and controls.</li> </ul>
<b>AUDIT DUTIES</b>	10	<p>(1) The City Auditor is responsible for all internal auditing activities within City Programs and City Agencies including:</p> <ul style="list-style-type: none"> <li>(a) independent, objective assurance and consulting activities</li> </ul>

designed to add value and improve the City's Programs;

- (b) assisting the City to accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes; and
- (c) coordination of fraud investigation activities within City Programs or City Agencies.

- (2) The City Auditor and External Auditor will coordinate their efforts to achieve optimal audit coverage and minimize duplication of efforts.
- (3) The City Auditor will submit annually to Council, concurrently with the City Manager's budget, a budget for the next calendar year.
- (4) The City Auditor will submit regularly but no fewer than four times per year; and

(S.3(a), Bylaw 14325, June 20, 2006)

- (a) a report summarizing the status of projects, and
- (b) a report summarizing budget performance of the City Auditor.

(S.3(b), Bylaw 14325, June 20, 2006)

## REVIEWS

- 11 (1) The City Auditor will arrange for peer reviews at intervals not to exceed five years.
- (2) Notwithstanding (1), Council may at any time appoint an external agency to review the City Auditor.

## AUDIT METHODOLOGIES

- 12 Subject to this bylaw, the City Auditor will determine the appropriate methodologies, project scope and service delivery options necessary to discharge responsibilities.

## LONG TERM AUDIT PLAN

- 13 The City Auditor will submit to Council a long-term audit plan based on alignment with the City's business objectives and an enterprise-wide risk management methodology.

## ANNUAL WORK PLAN

- 14 The City Auditor will submit to Council an Annual Work Plan based on the long term audit plan, judgement, and input from the City Manager.

- |                                 |    |   |
|---------------------------------|----|---|
| <b>ANNUAL REPORT</b>            | 15 | <p>The City Auditor will submit to Council an Annual Report that will include:</p> <ul style="list-style-type: none"> <li>(a) a synopsis of activities undertaken by the City Auditor;</li> <li>(b) an analysis of the trends that can be drawn from the audits, investigations and studies that were conducted;</li> <li>(c) a summary of performance measures and accomplishments; and</li> <li>(d) all other matters that the City Auditor deems relevant.</li> </ul>  |
| <b>SPECIAL PROJECTS</b>         | 16 | <ul style="list-style-type: none"> <li>(1) Council may instruct the City Auditor to conduct a Special Project involving any Program or Civic Agency.</li> <li>(2) When the City Manager submits a written request to the City Auditor for a special project, the City Auditor must: <ul style="list-style-type: none"> <li>(a) prepare a report addressing the concerns of the City Manager, or</li> <li>(b) advise the City Manager when resource limitations or independence issues do not allow the City Auditor to take on the project.</li> </ul> <p>(S.4, Bylaw 14325, June 20, 2006)</p> </li> <li>(3) When Councillors, Employees or members of the public inform the City Auditor of any perceived problems, suspected fraud or criminal acts, the City Auditor will address them in accordance with this Bylaw and with established policies and procedures.</li> </ul> |
| <b>STANDARDS</b>                | 17 | <ul style="list-style-type: none"> <li>(1) Subject to any applicable legislation, the City Auditor is entitled to rely on current ethical standards applicable to the audit profession for a refusal to release confidential information.</li> <li>(2) The City Auditor must follow generally accepted standards for the professional practice of audits.</li> </ul>  |
| <b>EMERGENT ISSUES</b>          | 18 | <p>If the City Auditor, during the course of a project, identifies significant information that puts the City's objectives at risk, the City Auditor may conduct further reviews outside the scope of the project as required.</p>  |
| <b>ASSIST IN IMPLEMENTATION</b> | 19 | <p>The City Auditor will provide any clarification required to assist in implementation of approved recommendations.</p>  |

**PART IV – RELATIONSHIP WITH THE CITY****DIRECTION OF OTHERS**

20 (1) Unless Council gives specific authority, the City Auditor may not give directions to the City Manager.

(2) The City Manager will provide administrative support to the City Auditor including:

- (a) legal services,
- (b) human resources and payroll,
- (c) corporate communications,
- (d) information technology, and
- (e) materials management, budget and accounting.

(3) During the course of an audit, the City Auditor will have full, free and unrestricted access at all times to all activities, records, property and personnel of the City, subject to any applicable legislation.

(4) The City Auditor is not authorized to:

- (a) perform any operational duties for the organization or its affiliates;
- (b) initiate or approve accounting transactions external to the Office of the City Auditor; or
- (c) direct the activities of any individual not employed or retained by the Office of the City Auditor, except to the extent that such employees have been appropriately assigned to auditing teams or to otherwise assist the City Auditor.

(S.4 (a,b,c), Bylaw 14325, June 20, 2006)

**FREEDOM OF INFORMATION AND PROTECTION OF PRIVACY ACT**  
**FRAUD POLICY**

21 The City Auditor will comply with the City's obligations and administrative structure under the *Freedom of Information and Protection of Privacy Act*.

22 (1) The City Auditor and the City Manager will cooperate in development of a fraud and misconduct policy and a code of conduct directive for the City.

(2) The City Auditor will lead the implementation and operation of the

City's hotline.

(S.6, Bylaw 14325, June 20, 2006)

**ACTION PLAN**

- 23 (1) The City Auditor will send all audit, investigation, study or follow-up reports to the City Manager.
- (2) Once the City Manager has received the report, the City Manager must within four weeks prepare, sign and forward a written response to the City Auditor, called the Action Plan, that must include:
- (a) the action planned or taken to address each recommendation,
  - (b) the timeframe within which action will be taken,
  - (c) the position of the individual who will be accountable for taking action, and
  - (d) if the City Manager disagrees with the conclusions and recommendations, the reason for disagreeing or suggested modifications.
- (3) Subsections (1) and (2) do not apply if:
- (a) the matter has been reported to the Edmonton Police Services,
  - (b) an agreement is made between the City Manager and the City Auditor, or
  - (c) Council instructs otherwise.
- (2) The City Auditor will incorporate the Action Plan in all reports.

**EMPLOYEES ON SITE**

- 24 The City Manager will provide reasonable accommodation for the City Auditor at the location where an audit, investigation, or review is being conducted.

**OPEN COMMUNICATION**

- 25 The City Auditor will engage in open communication, provide recommendations and obtain responses from the City Manager throughout the audit process.

**PART V – ADMINISTRATIVE POWERS, DUTIES AND FUNCTIONS**

**POWERS, DUTIES AND FUNCTIONS**

- 26 The City Auditor:

- (a) has all the powers, duties and functions as delegated to the City Auditor by Council by this or any other bylaw, subject to any applicable legislation;
- (b) may exercise the powers, duties, and functions as may be required by Council from time to time;
- (c) is authorized to establish the structure of the Office of the City Auditor, including establishing a managerial hierarchy and administrative policies and procedures for the Office;
- (d) is authorized to appoint and review performance of personnel within the Office of the City Auditor subject to any applicable legislation and any contract or agreement binding on the City, and within general corporate guidelines;
- (e) is authorized to hire, dismiss, evaluate and discipline staff within the Office of the City Auditor subject to any applicable legislation and any contract or agreement binding on the City, and within general corporate guidelines;
- (f) is authorized to implement learning and safety programs for staff;
- (g) is authorized to settle employment related disputes at the department level;
- (h) is authorized to retain the services of any individual or corporation for purposes related to the operations of the Office of the City Auditor and enter into all agreements and contracts and complete all necessary documents required for the provision of such services in accordance with general corporate guidelines, provided such expenditure does not exceed \$250,000, and if the agreement or contract is for a specified term:
  - (i) the term shall not exceed ten (10) years (including renewals), and
  - (ii) the expenditure or fixed revenue shall not exceed \$250,000 per year;
- (i) will prepare and submit to Council a report listing all agreements and contracts approved by the City Auditor or any person to whom the City Auditor has delegated approval authority, since the previous reporting, involving

an expenditure, revenue or payment greater than \$100,000, such report to be submitted quarterly; and

- (j) is authorized to establish and implement all policies, procedures, standards and guidelines for all matters relating to internal audits.

## PART VI – RELATIONSHIP WITH AUDIT COMMITTEE

### GUIDING OBJECTIVES

- 27(1) The City Auditor will provide the Audit Committee with regular reports designed to assist the Committee in evaluating:
  - (a) the City's exposure to and management of strategic, business, and operational risks;
  - (b) the efficiency and effectiveness of internal control systems;
  - (c) the efficiency and effectiveness of City operations;
  - (d) the level of operational commitment to the principles of continuous improvement; and
  - (e) other internal control issues as appropriate.
- 27(2) The City Auditor will provide the Audit Committee with periodic reports related to:
  - (a) assessments of the adequacy and effectiveness of corporate policies related to compliance with laws, regulations, ethics, and conflict of interest;
  - (b) investigation of employee conflict of interest, misconduct, or fraud in accordance with City policies;
  - (c) evaluation and improvements of the process through which organizational values and goals are established and communicated;
  - (d) evaluation of the extent to which operations and programs produce results consistent with their established goals and objectives;
  - (e) evaluation of performance monitoring and reporting by operational areas;
  - (f) other governance issues as appropriate and

(g) overall hotline activity.

(S.7, Bylaw 14325, June 20, 2006)

### **PART VII - GENERAL**

**NUMBER AND  
GENDER  
REFERENCES**

28 All references in this bylaw will be read with such changes in number and gender as may be appropriate according to whether the reference is to a male or female person, or a corporation or partnership.