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# **Audit Committee Awareness and Training**

A Resource for Members of City Council

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# Audit Committee Awareness and Training

A Resource for Members of City Council

## Introduction

The Office of the City Auditor (OCA) has worked with the City's External Auditor (KPMG LLP) to produce an awareness and training information resource designed to assist members of both Council and Audit Committee in enhancing their governance roles and responsibilities related to corporate oversight. The OCA has been assigned (through the Procedures and Committees Bylaw, the City Auditor Bylaw, and Audit Committee Terms of Reference) to coordinate the development and delivery of training and awareness materials for Audit Committee and other members of Council. Some of the material regarding generic functional roles and responsibilities presented in this document was adapted from material<sup>1</sup> obtained from The Institute of Internal Auditors, the international governing body for the practice of internal auditing. It is the intention of the OCA to present training and awareness sessions to members of Audit Committee and interested members of Council each year following rotation of committee assignments. This material will be reviewed annually and updated as required to ensure that it remains current. The appendices provide additional resources related to the City's audit functions:

- Common Audit Terminology (Appendix 1)
- Audit Responsibility Chart (Appendix 2)
- Audit Committee Terms of Reference (Appendix 3)
- Excerpts from Bylaw 12300 *Procedures and Committees* related to Audit Committee (Appendix 4)
- Bylaw 12424 *City Auditor* (Appendix 5)
- Sample Questions for Members of Audit Committee (Appendix 6)
- Report of the Joint Committee on Corporate Governance (Appendix 7)

## Characteristics of Audit Committees

Audit committees, as part of corporate boards of directors, are playing an increasingly important role in the corporate governance process.<sup>2</sup> The following points present some characteristics of effective audit committee members:

- They recognize the significance of the audit committee's responsibilities.

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<sup>1</sup> Adapted from the Bon Secours Health System, Inc. *Audit Committee Orientation Manual* purchased from the Institute of Internal Auditors as an e-document.

<sup>2</sup> See Appendix 7 for the Canadian perspective on corporate governance (the Saucier Report).

- They have what the Blue Ribbon Commission in the United States<sup>3</sup> refers to as a “significant degree of commitment to the organization and the management.”
- They are independent.
- They have a reasonable degree of financial literacy.

The current structure of the City’s Audit Committee will generally ensure that three of the four above characteristics are satisfied. This document and associated training and awareness sessions will begin to address the fourth (financial literacy).

The City’s Audit Committee members are individuals with significant responsibilities in their communities in addition to their roles as Councillors. The committee membership rotation system used at the City of Edmonton ensures that Audit Committee members do not take on the extra work of the Audit Committee for their entire term of office. In addition, the Audit Committee uses the services of the City Auditor to obtain input regarding matters for which financial literacy is important.

### ***Differences between Private, Federal, Provincial, and Municipal Audit Committees***

Governments have unique operating characteristics that differentiate them from other organizations. While publicly traded companies tend to focus on earnings reports, governments are focused on preparing and complying with their budgets and effectively offering programs and services to their constituencies. Effective government audit committees understand the unique characteristics of government and they understand how their organization is positioned in the current economic and political environment.

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<sup>3</sup> The U.S. Blue Ribbon Committee on Improving the Effectiveness of Corporate Audit Committees and Canada’s Joint Committee on Corporate Governance have issued recommendations for audit committees designed to strengthen the effectiveness of audit committees, clarify and enhance their oversight roles, and enhance their accountability over the financial reporting process. A summary of the Blue Ribbon Commission’s report is included with the Saucier Report (see Appendix 7).

## Roles and Responsibilities

### *Overview of Roles*

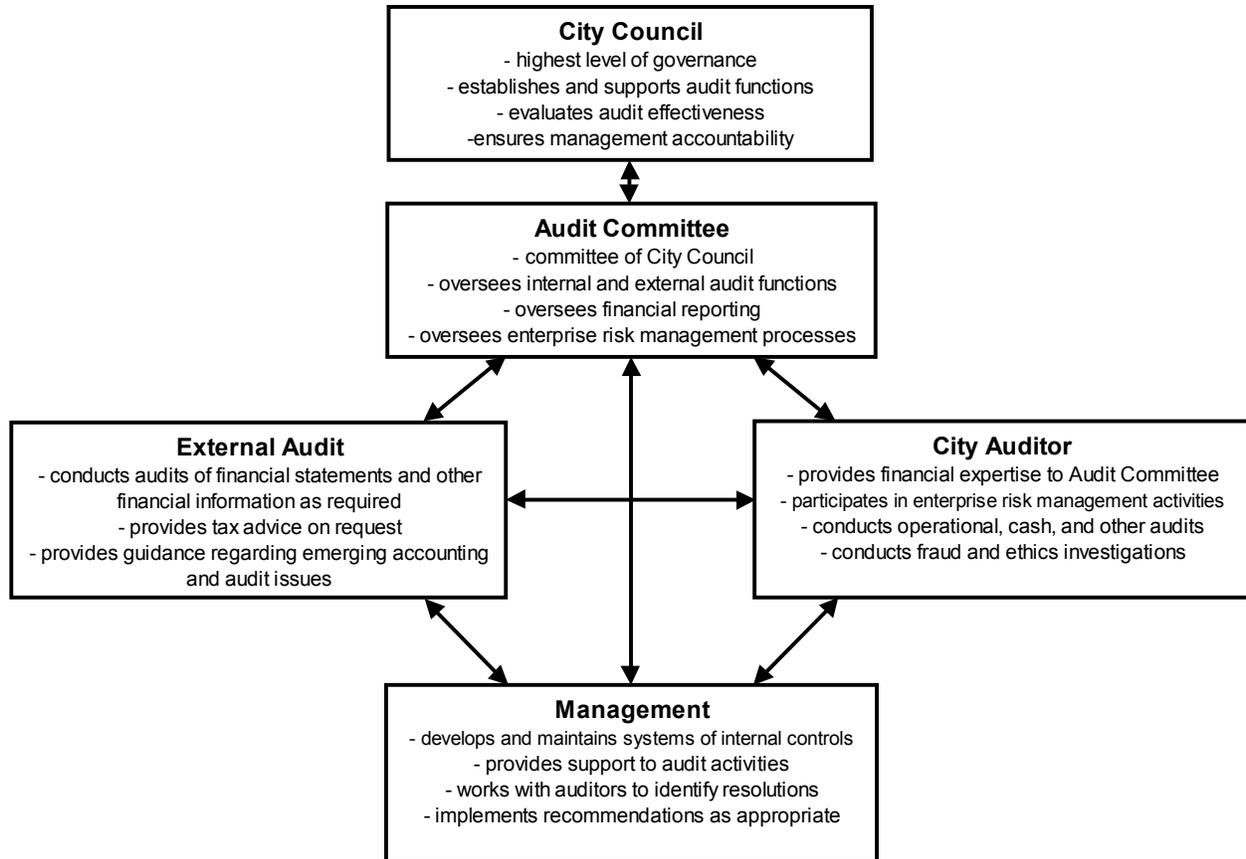
The most effective audit committees are not only critically aware of their responsibilities, but also completely understand and embrace them, and recognize what is necessary to effectively fulfill them. The work of audit committees has been evolving in response to changes in the business environment and leading practices.

Every audit committee must assume three fundamental responsibilities:

- Overseeing the process related to the organization's financial risks and internal control,
- Overseeing financial reporting, and
- Overseeing internal and external audit processes.

City Council (including the Audit Committee), management, and audit must work together to ensure that the City's financial reporting, organizational functions, and monitoring are effective. Since the Audit Committee serves as an extension of City Council's oversight function, it is the "ultimate monitor" of the reporting and monitoring processes. The Terms of Reference for the Audit Committee, excerpts from Bylaw 12300 (as amended) – Committees and Procedures Bylaw, and Bylaw 12424 (as amended) – City Auditor Bylaw are attached as Appendices 3, 4, and 5 respectively.

The chart on the following page provides a high-level overview of roles, responsibilities, and interrelationships of City Council, Audit Committee, Management, Internal Audit, and External Audit.



## Internal and External Auditors

### *Differences between Internal and External Auditors*

The primary distinction between internal and external auditors is the type of work they do. External auditors focus primarily on providing an opinion on the fairness of the financial statements, obtaining reasonable assurance whether the financial statements are free of material misstatement, providing tax advice, and communicating emerging accounting and tax issues. External auditors do not typically provide assessments of the effectiveness or completeness of an organization's overall systems of internal control.

Internal auditors focus primarily on systems of internal controls, the effectiveness and efficiency of operations, fraud and ethics investigations, cash handling audits, governance reviews, risk management, and proactive involvement in systems development (both technology and process). Internal auditors are responsible for evaluating and commenting on whether management's objectives have been met, including the effectiveness and completeness of management's systems of internal control.

Together, the external and internal auditors provide organizations with the ability to more accurately assess their financial and operational positions. Internal and external auditors are both focussed on providing value-added services to their clients.

### *Relationships between Internal and External Auditors*

According to the standards governing the practice of internal auditing (published by the Institute of Internal Auditors), coordination of the activities of the internal and external auditors is the responsibility of the chief audit executive (in our case, the City Auditor). It is the City Auditor's responsibility to ensure that the internal and external auditors coordinate their efforts. Such coordination will ensure that projects performed as a part of their respective annual work plans don't significantly overlap and that key and potential issues identified by one party are communicated to the other party in a timely and appropriate manner.

Ideally, internal and external auditors should work in a partnership arrangement. The level of collaboration expected within a partnership relationship involves a shared mission that encourages the two organizations to jointly define audit needs for the organization, expectations of the various shareholders, and working together to provide overall assessments of the organization.



## Internal Control

Internal control is a process designed by management to provide reasonable assurance that the organization's objectives are accomplished. Internal controls include an 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. Examples of internal controls include systems designed to ensure:

- Reliability and integrity of information,
- Compliance with laws, regulations, policies and procedures,
- Safeguarding of assets,
- Economic and efficient operations, and
- Accomplishment of goals and objectives.

Effective internal control systems consist of five interrelated components:

- **Control environment** – 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.
- **Risk assessment** – The organization must be aware of and deal with the key risks it faces. It must set objectives, integrated with revenues, production, marketing, financial, and other activities so that the organization is operating in a manner consistent with its goals. It also must establish mechanisms to identify, analyze, and manage risks.
- **Control activities** – Control policies and procedures must be established and executed to help ensure that mitigation strategies designed to address risks to achievement of the organization's objectives are effectively implemented.
- **Monitoring** – The entire process must be monitored and modifications made as necessary to ensure that the system can react dynamically to changing conditions.
- **Information and communication** – Implicit in each of these activities are information and communication systems that are designed to effectively and efficiently manage and monitor operations.

### *Participants & Their Roles in Internal Control*

- The City Manager is ultimately responsible for the operation and effectiveness of internal control systems.

- City Council, through its Audit Committee, provides guidance and oversight and monitors the effectiveness of the overall internal control system.
- The City Auditor evaluates the effectiveness of internal control systems by performing regular testing and assessment and reporting the results to Council and Audit Committee.
- External Auditors may conduct high-level assessments of the effectiveness of internal control systems if those systems could materially affect financial statements.

## Independence

Independence is essential for effective internal and external audit functions and is achieved primarily through organizational status (independence from management control) and adherence by audit personnel to the professional standard of objectivity.

- **Organizational Status:** The City Auditor and the External Auditor have direct responsibility to City Council through the Audit Committee and rely on the City Manager for administrative support and cooperation during performance of audit projects. This direct reporting relationship to Audit Committee and Council ensures the independence of the internal and external audit functions and appropriate consideration of audit findings and recommendations. The City Auditor also relies on the City Manager for provision of administrative support services (accounting, personnel, information technology, etc.) to the Office of the City Auditor.
- **Objectivity:** Audit personnel will not be responsible for developing or implementing procedures, preparing records, or engaging in any activity that they would normally review and appraise and which could reasonably be construed as compromising their independence. In particular, audit personnel are not to be used as auxiliary line accounting or finance staff.

One of the results of recent events in accounting and auditing practices is the increasing emphasis on auditor independence. Without a high degree of independence (both real and perceived), audit results will not be received as valid independent assessments of the effectiveness of management operations and fairness of financial representations. The consequence will be a decreased level of stakeholder confidence in the organization as a whole.

### **Independence Requirements**

Independence requirements differ for external and internal auditors. External auditors need to demonstrate independence from the organizations they audit by ensuring that they operate at arm's length from both the organizations and the officials within those organizations. Independence is important to ensure that audit reports to Audit Committee provide impartial assessments of the City's financial and operating positions. In general, external auditors who also provide certain non-audit types of service to the organizations that they audit need to be cautious regarding the amount and the nature of the assignments they will accept from those organizations. A best practice is for the Audit Committee to be informed of non-audit services that may have a perceived or real impact on independence. For example, a perceived or real lack of independence could result if an audit firm provided services to an organization in which some of its key personnel had family relationships or financial interests.

Internal auditors, on the other hand, are part of the organization that they audit. One of the benefits of this relationship is that internal auditors typically have a strong understanding of the corporate culture. One challenge for internal auditors is to maintain functional independence. That challenge requires internal auditors to balance being a

part of the organization with the need to provide objective assessments of operational areas. At the City, this balance is achieved because the City Auditor reports to City Council, the highest level of the organization.

## Types of Work Performed by Internal and External Auditors

There are two basic types of audits: financial and operational (also known as performance). It is not uncommon for audit projects to involve elements of both primary audit types. The decision to include elements of a secondary audit type depends on the scope of the project and/or the results of the risk assessment conducted prior to the beginning of audit fieldwork. For example, a comprehensive audit will include both financial and operational review elements, while operational audits may include related financial audit elements.

In addition to these primary audit types, internal auditors worldwide are increasingly involved in consulting activities in addition to their more traditional functions. Consulting is recognized as a value-added service that internal auditors can provide, but that also must be managed effectively to avoid any perceived independence issues in subsequent audit projects. The Institute of Internal Auditors (IIA) provides the following definition of the internal audit function:

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.<sup>4</sup>

### **Financial Statement Audits**

Financial audits include audits of financial statements and related financial activities. The primary responsibility for financial audits at the City lies with the External Auditor. The External Auditor is responsible to conduct sufficient audit work to provide reasonable assurance that the City's financial statements are fair and complete presentations of the financial position, results of operations, and cash flows and comply with all requirements of Canadian Generally Accepted Accounting Principles (GAAP).

Audits of related financial activities include such things as audits of compliance with financial legislation, internal controls over financial reporting and safeguarding of assets, and evaluation of the manner in which financial information is presented. Responsibility for these audit activities lies both with external and internal auditors. In general, external auditors don't assess systems that are not likely to materially impact the organization's financial statements. Internal auditors are responsible for assessing systems that could impact the effectiveness of one or more operational units regardless of the degree of financial impact.

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<sup>4</sup> The Institute of Internal Auditors, *The Professional Practices Framework*, Altamonte Springs, FL: The Institute of Internal Auditors, 2002, p. 29.

***Operational Audits***

Operational (or performance) audits include audits designed to determine the efficiency, effectiveness, and economy of program operations. They may be designed to evaluate a cross-organizational function (such as accounting), an operational area, or some other organizational structure or process.

Economy and efficiency audits typically focus on the manner in which a particular type of business is carried out. These audits are designed to either provide assurance that business is being conducted in a reasonable manner or to provide recommendations for operational improvements that would enhance the economy and efficiency of operations. These audits also evaluate organizational compliance with applicable legislation, policies, and procedures. Internal auditors typically conduct these types of audits. External auditors may conduct limited reviews using these techniques in order to support their analysis of the financial statements.

Effectiveness audits typically focus on the cost-benefits offered by a particular operational area. The ability of the operational area to fulfill its mandate within its cost of operations is evaluated against the desired organizational outcomes. Alternative means of addressing the desired outcomes are explored and compared against existing operations to determine whether the desired outcomes can be achieved more efficiently or economically. Internal auditors typically conduct this type of audit.

***Consulting and Non-audit Services***

Recent stock exchange regulation changes in the United States and Canada require or recommend that accounting and auditing firms that provide external audit services be limited in both scope and magnitude of the non-audit services they provide to their audit clients. While these regulations do not directly apply to municipal external auditors, they are reflective of leading practices designed to ensure auditor independence. Internal auditors are an integral part of the organization for which they provide audit services. Because they typically report directly to the board of directors or chief executive officer, they aren't required to maintain the degree of organizational separation required of external auditors.

Internal auditors must, however, exercise due diligence when considering potential internal consulting type assignments. In no case should an internal auditor accept a role that would reasonably appear to compromise the future independence of the internal audit group in evaluating that project. In no case should an internal auditor make management decisions. Consultative relationships with management that are designed to provide input to design of information and control systems, evaluation of organizational structures, design of performance measurement systems, organizational training, etc. These are all examples of projects that do not necessarily compromise the internal audit group's ability to subsequently evaluate projects. As stated in a recent publication:

According to The IIA, consulting services are defined as: “Advisory and related client service activities, the nature and scope of which are agreed upon with the client and which are intended to add value and improve an organization's operations. Examples include counsel, advice, facilitation, process design, and training.” The IIA’s [Standards for the Professional Practice of Internal Auditing](#) (*Standards*) further indicates that consulting objectives should include risks, controls, and governance processes to the extent agreed upon with the client.<sup>5</sup>

The focus of the IIA’s definition and standards is to preserve the integrity and independence of internal audit processes while promoting provision of value-added services to the organization. Generally Accepted Auditing Standards (GAAS) also provide specific guidelines to ensure independence when an internal audit group evaluates projects in which its staff were previously involved.

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<sup>5</sup> Brune, Christina, “Consulting: Friend or Foe?” *Audit Wire*, Institute of Internal Auditors 25, 1 (January/February 2003).



## Internal Audit Overview

### ***Role of Internal Audit***

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 evaluation and improvement of the effectiveness of risk management, control, and governance processes.

As the City's internal auditor, the OCA provides services to both City Council and management in reviewing operations, adequacy of internal controls, compliance with applicable laws and regulations, and accuracy of reported financial activities. The OCA provides a proactive organizational monitoring function, which measures and evaluates the effectiveness of management's control systems. The OCA assists City Council and management in the effective discharge of their responsibilities by furnishing them with analyses, appraisals, and recommendations concerning the activities reviewed.

### ***Authority and Responsibility of Internal Audit***

In carrying out its duties, the OCA has full, free, and unrestricted access to all records, properties, systems, and personnel relevant to the subject areas reviewed. The OCA has access to review and appraise policies, procedures, plans and any other records necessary to effectively perform its audit responsibilities.

The OCA has the following primary responsibilities (a full description of authority and responsibilities of the OCA is contained in Appendices 3, 4, and 5):

- To inform and advise management of all audit findings, recommend appropriate corrective measures and conduct follow-up reviews to ensure that management takes satisfactory action to resolve significant audit findings.
- To operate in accordance with the principles of the *Standards for the Professional Practice of Internal Auditing* as promulgated by The Institute of Internal Auditors, Inc.
- To present the Annual Work Plan to Audit Committee and to provide periodic updates on the status of engagements contained in the Annual Work Plan and any findings that warrant the attention of senior management, the Audit Committee, and/or City Council.
- To coordinate its activities with others to best achieve its objectives, as well as the objectives of the organization. This includes where appropriate, coordination with and assistance to the External Auditor.
- To perform and report to the Audit Committee on an annual self-assessment to evaluate the effectiveness and efficiency of the OCA.

### ***Scope and Objectives of Internal Audit***

The scope of the OCA's activities includes the performance of financial, operational, mission, and information systems reviews of activities conducted by the City. The OCA has the authority to periodically review departments, business units, or entities owned and/or controlled by the City. These reviews are designed to determine the degree to which functions and responsibilities are being conducted in accordance with management instructions, organizational policies and procedures, and external laws and regulations.

One of the OCA's key objectives is to assist all members of the City's management team in the effective discharge of their responsibilities through analyses, appraisals, and recommendations concerning the activities reviewed. The OCA is a resource to assist management in any business activity where internal audit services can benefit the organization. The attainment of this overall objective includes the following activities:

- Reviewing and appraising the adequacy and application of accounting, financial, mission, information systems, and other operating controls, and the promotion of an effective internal control environment at a reasonable cost.
- Ascertaining the extent to which the City's assets are safeguarded from losses of all kinds and, as appropriate, verifying the existence of such assets.
- Appraising the economy and efficiency with which resources are deployed, identifying opportunities to improve operating performance where appropriate.
- Ascertaining the extent of compliance with established policies, procedures, plans, governmental regulations, and contractual obligations in support of the compliance program.
- Reviewing compliance with guidelines for ethical business conduct (e.g., professional codes of ethics/conduct, the City's Code of Conduct) to verify that the highest standards of personal and corporate performance are met.
- Ascertaining the reliability of management data developed within the organization
- Reviewing the reliability and integrity of financial information and the means used to identify, measure, classify, and report such information.
- Coordinating audit efforts with those of the External Auditor, including assisting in conducting the annual financial statement audit as appropriate.
- Recommending improvements in the operations, including performance of operational reviews at the request of management.
- Participating in due diligence examinations relating to proposed business relationships between the City and supported or owned organizations.

### ***Management Support for Internal Audit***

Management is supportive of and provides meaningful input to the OCA to ensure that:

- Operations are reviewed at appropriate intervals to determine whether they are effectively carrying out their functions of planning, accounting, custody, and control in accordance with management instructions, policies and procedures, and in a manner that is consistent both with corporate objectives and the high standards of administrative practice.
- The results of reviews performed and the recommendations made by the OCA are resolved in a timely manner.
- Sufficient staffing and other resources are provided to support the OCA, including access to specialized technical staff as needed.

The OCA has neither direct responsibility for, nor authority over management operations or activities under review. Thus, the OCA's reviews and appraisals do not relieve management of their assigned responsibilities. The OCA does not make operating or management decisions and does not have the authority to direct activities or implement corrective actions within the City.

### ***Internal Audit Methodologies***

#### **Communicating with Stakeholders**

The OCA is committed to providing ongoing, productive communications with all of its stakeholders. The OCA strives to keep members of Council informed about significant findings, emerging issues with the potential to impact City operations, corporate risk management strategies, and periodically solicits input regarding matters of concern to Councillors.

The OCA also maintains ongoing, proactive communications with managers and other staff in each area being reviewed. In addition, the OCA maintains regular contact and open communication with managers throughout the City. Open communication with managers is necessary to maintain healthy working relationships that result in accurate and forthright assessments of operational areas. Such assessments in turn produce operating enhancements that improve service provision to Edmontonians.

#### **Developing the Scope**

As an audit project begins, assigned internal audit staff members review available and applicable materials and meet with management to obtain an understanding of the objectives, processes, and methodologies associated with the operation or process under review. During this planning phase, OCA staff will conduct a preliminary assessment of the operation or process to identify potential areas where the OCA's involvement could add value.

The most significant challenge facing an auditor at the beginning of a project is determining which elements of a business unit or process pose the most significant risks to the accomplishment of the business unit and applicable City objectives. Consequently, a preliminary risk exposure assessment of the business unit or process

is one of the first steps in defining the scope of each project. Business risk assessments are conducted using a variety of tools and techniques designed to identify potential risks to which a business unit or process is exposed, probabilities of occurrence, potential impacts of each event, the level and effectiveness of management controls, and the materiality associated with each identified risk.

Following completion of the preliminary risk assessment, the auditor will review the results with management for accuracy and completeness and produce a final assessment. In the event of a significant disagreement regarding the level of risk exposure, the OCA will consult with more senior managers to resolve the disagreement. The final risk assessment defines the areas that will be reviewed most intensively during the course of the project and which areas require only validation or more of a cursory review. If, during the course of the fieldwork, observations lead the auditor to either increase or decrease the risk assessment for a portion of the project, the level of review will be adjusted accordingly.

### **Conducting the Fieldwork**

Fieldwork typically constitutes about 30 to 40 percent of the time spent on each audit project. During the fieldwork stage, each of the risk areas that were identified as significant are tested using appropriate audit techniques to determine whether or not the existing management control systems are adequate to reasonably mitigate the City's risk exposure. The OCA will usually conduct an overall assessment of the effectiveness of the operation being reviewed to determine how well it is satisfying its mandate. In addition, the OCA observes organizational structures and looks for opportunities to improve operational efficiencies.

The OCA uses a variety of techniques including Computer Assisted Audit Techniques (CAAT's), Control Self Assessment's (CSA's), interviews, reviews and analyses of records, Internet and other research, and consultation with other internal audit groups to assist in analyzing the control systems, identifying organizational efficiency opportunities, evaluating organizational effectiveness, etc. Computer Assisted Audit Techniques involve the use of software (often highly specialized) to more specifically analyze large volumes of business process data.

### **Developing Observations**

As observations are developed and documented, the OCA discusses them with management. For those areas where possible control system improvements are identified, the OCA and management explore alternatives for cost-effective improvements. Tools such as best practice reviews, methodologies used by other operational areas, etc. are used to identify alternative means of addressing observed areas of concern.

The OCA's goal is to work with management to identify effective, practical and affordable solutions to observed opportunities for improvement. Ideally, implementation of the OCA's recommendations will be underway before the fieldwork is complete, but

there are often operating constraints (usually financial or personnel) that delay implementation to a later date. Opportunities for improvement are recorded along with detailed recommendations, management action plans, and planned implementation dates to facilitate follow-up audit work and help ensure management accountability.

### **Reporting Results**

Results of audit projects are usually reported formally to management and to members of Council. In most cases, management and members of Council receive the same report. (Exceptions to this process include things like fraud and code of conduct investigations, cash handling review reports, and others that involve confidential information.) Each report contains background information, summaries of the recommendations, and management responses that arose from the project. In addition, management also receives Opportunity for Improvement forms that collate the information applicable to each recommendation onto a single form.

### ***Structure and Interpretation of Internal Audit Reports***

In most cases, OCA project reports will be developed using the following outline. Exceptions include special projects and cash-handling audits.

- Introduction – includes a brief discussion of the intent and focus of the project
- Description of project objective(s)
- Description of project background and scope
- Description of methodologies used in conducting the project (except for cash audits and investigations)
- Discussion of significant observations made during conduct of the project and any opportunities for improvement identified during the project, including appropriate recommendations and a statement of management's response to each recommendation (for standard reports)
- Overall conclusions regarding the project

OCA reports will seldom exceed ten pages, but will be of whatever length is required to effectively communicate the significant observations and management's commitment to implementation of the recommendations. Draft reports are always reviewed for accuracy, completeness, and tone with the project clients prior to finalization. Following that review, copies are distributed to members of Council, Senior Management Team, and the management team of the area under review. In cases where the area under review does not report to the City Manager, the distribution will not normally include Senior Management Team.

### ***Financial Governance***

The City Auditor's mandate includes provision of comments and advice to Audit Committee related to interpretation of financial statements, external audit reports, and

other financial information. In carrying out this mandate, the City Auditor provides members of Council with periodic information and/or evaluation reports on financial information that is presented to Audit Committee by management and/or the External Auditor. These reports are designed to facilitate fuller understanding of important issues included in or affecting the information provided to Audit Committee. The OCA also identifies questions or concerns raised during its review that should be answered by management or by the External Auditor. The City Auditor is also available during Audit Committee's discussion of such items to provide interpretation of and/or opinions on the materials presented to them.

### ***Investigations***

Because of their sensitive and confidential nature, detailed reports of the results of investigations into allegations or suspicions of fraudulent activity or Code of Conduct violations are normally held in confidence with only outline information released into the public domain. The amount and type of information released will depend on the nature of the investigation and its outcome. For example, information that could compromise future investigations (e.g., investigative methods) or that might result in inappropriate release of personal information will not normally be divulged.

### ***Special Projects***

Special projects are projects that are not included on the Annual Work Plan and often differ substantially in scope and design from standard audit projects. They often require fast-tracking in order to meet tight timelines for completion. Therefore, some of the formal steps of an audit project are often compressed and/or conducted informally. For example, project planning and scoping will be conducted, but since these projects are usually the result of direction from Council or specific management requests, the project scope is usually limited to that of the directive or request. Special project reports are produced and circulated using the same guidelines as for a standard audit project.

### ***Enterprise Risk Management***

Enterprise risk management (ERM) has emerged as an important means of identifying the critical risks organizations face – for example, reputation, ethics, e-business and health, safety and environment risks, not just financial or insurable hazard exposures – and then appropriately managing and optimizing that portfolio of risks.

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 of risk management activities and by asking probing questions about those activities.

The OCA is participating with the Administration in management of the City's version of Enterprise Risk Management – called Corporate Business Risk Planning (CBRP) to avoid confusion with other acronyms used in the City. The intended goal of the CBRP process design is to incorporate it into the City's business planning and budget

processes. By doing so, it will help the City develop a risk management culture in which every manager recognizes their own role in managing risks.

Several operational areas within the City have been conducting risk management activities for some time (e.g., Corporate Risk Management, Office of Infrastructure, etc.). The goal of this project is to provide an umbrella process that will incorporate those existing activities into a common framework, providing a common terminology and definition of risk exposures. This will allow common assessment of a variety of types of risk (financial, health and safety, social, etc.) at a given level (i.e., strategic, operational, or project risk) so that appropriate priority can be assigned to each. It will also provide a corporate framework for risk identification so that significant risks are anticipated and not unintentionally overlooked. The CBRP process is expected to provide substantial input into the OCA's Annual Work Plan.



## External Audit Overview

### *Role of External Audit*

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, within a predetermined level of accuracy (materiality).

The primary role of the External Auditor is to report on an organization's financial statements and to carry out as much examination of the statements and underlying records and control systems as is necessary to reach their opinion on the statements.

### *Authority & Responsibility of External Audit*

#### **Authority**

The City's External Auditor provides an independent audit of the financial statements of the City of Edmonton in accordance with Canadian Generally Accepted Auditing Standards. The External Auditor is appointed by and responsible to City Council.

#### **Auditing Standards**

An external auditor's responsibility is to express an opinion on the financial statements of the City based on their audit. External Auditors have a responsibility to conduct the audit in accordance with Canadian Generally Accepted Auditing Standards. Auditing standards require that the auditor plan and perform the audit to obtain reasonable, but not absolute, assurances as to whether the financial statements are free of material misstatement. The auditor's responsibility is described in their report.

The audit includes assessing the risk that the financial statements may contain material misstatements, examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and their application, and assessing the significant estimates made by management.

#### ***Materiality***

When conducting the external audit, the auditor will independently determine materiality, giving consideration to the assets, expenditures, and related circumstances reflected in each statement. In January 2002, the Canadian Institute of Chartered Accountants

released new audit guidelines on the application of materiality and audit risk concepts in conducting an audit. These guidelines contain substantial new and revised guidance that significantly impacts the auditor's application of professional judgment regarding the evaluation of the materiality of misstatements that impact financial statements.

### ***Independence***

External auditors follow professional ethics and independence regulations that govern auditor's professional responsibilities. External auditors also maintain the independence of all of its partners, managers and professional staff with respect to clients upon whose financial statements they express an opinion. More specifically:

- External auditors must be **independent** not only in fact, but also in appearance.
- **Integrity** – External auditors are responsible for maintaining their integrity. They must act with integrity, performing their work with diligence in order to maintain their own reputations and the reputation of the firm. External auditors must be straightforward and honest in performing their professional services.
- **Objectivity** – External auditors are responsible for maintaining their objectivity and for being continually alert to potential conflicts of interest.
- **Professional Competence and Due Care** – External auditors must plan and perform their work and prepare their report with due care, competence and diligence.
- **Confidentiality** – External auditors must exercise due care in determining whether information is confidential and are responsible for maintaining confidentiality. They are responsible for preserving the confidentiality of information acquired in the course of their work that is not publicly available.
- **Professional Behavior** – External auditors are responsible to perform their work in a manner that engenders pride in themselves, their firm and the name of their firm.
- **Technical Standards** – External auditors are responsible for conducting the audit in accordance with Canadian Generally Accepted Auditing Standards (GAAS). They must comply with applicable laws, regulations and professional standards, and are guided by overriding standards of ethical behavior.

### ***Scope and Objectives of External Audit***

#### **Scope**

The scope of an external audit refers to the audit procedures deemed necessary in the circumstances to achieve the objective of the external audit as a whole. An excerpt from a standard external audit report reads as follows:

Our audit of the financial statements was performed in accordance with Canadian generally accepted auditing standards to obtain reasonable,

rather than absolute assurance whether the financial statements are free of material misstatements whether caused by fraud or error.

In forming an opinion on the financial statements:

- An auditor's examination will be performed in accordance with generally accepted auditing standards (GAAS).
- The auditor will typically perform sufficient procedures and tests to obtain reasonable assurance as to whether the information produced by the accounting and reporting systems is reliable and sufficient as the basis for preparation of the financial statements.

Absolute assurance in auditing is not attainable as a result of such factors as the application of judgement and the use of testing, and the inherent limitations of any accounting and internal control system.

- The auditor, in examining and testing the City's accounting and reporting systems, may detect weaknesses in controls or business processes that are then reported to management and the Audit Committee. However, given:
  - The specific scope of an external audit (the financial statements as a whole and not individual line items); and
  - That the audit involves sample testing, since examination of all transactions is not possible, an external audit will not reveal all material control weaknesses that may exist within an organization, including those that may result from fraud or misappropriation.

It is therefore critical that Audit Committees do not inappropriately rely on the external audit to reveal such matters, and that other reporting processes and review mechanisms, such as internal audit, are put in place as appropriate.

- The auditor will also consider whether there is adequate disclosure of relevant information in the financial statements.

An external audit is not:

- A detailed examination of all amounts in the financial statements
- An opinion on an individual statement of financial positions (i.e., receivables), but rather an opinion on financial statements taken as a whole
- A certificate
- A guarantee
- Absolute assurance

**Audit Objectives**

To achieve the audit objective, the External Auditor plans the audit using a business review and risk assessment process supported by a strategy to manage the audit risks. The audit approach has been designed to limit the audit risks with primary focus given to those audit risks they consider critical. The auditor will perform appropriate and necessary tests of the accounting records and such other procedures required to provide a reasonable basis for their opinion on the financial statements. Also, they will assess the accounting principles used and significant estimates made by management and they will evaluate the overall statement presentation.

***Management Support for External Audit***

The operations of an organization are under the control of management, which has the responsibility for accurately recording transactions and for preparing financial statements in accordance with generally accepted accounting principles. These responsibilities include those related to internal control such as designing and maintaining accounting records, selecting and applying accounting policies, safeguarding assets and preventing and detecting fraud and error.

An audit of financial statements does not relieve management of its responsibilities. The preparation of the financial statements, including the accompanying notes, is the responsibility of management. This includes preparation of the financial statements in accordance with accounting principles for municipal governments established by the Canadian Institute of Chartered Accountants.

External Auditors rely on management to carry out certain responsibilities and to provide the auditors with certain information. Some of these key responsibilities are to:

- Prepare financial statements and notes in accordance with Canadian GAAP
- Design, implement, and maintain effective internal control over financial reporting processes
- Adopt and apply sound accounting principles and apply sound judgement in preparing accounting estimates and disclosures contained in the financial statements
- Disclose to External Auditors any fraud or illegal acts or possible illegal acts
- Respond to enquiries from External Auditors
- Provide a supporting representation letter describing the effectiveness of internal control and the representations embodied in the financial statements, including the notes thereto.
- Assess the impact of misstatements discovered during the audit on fair presentation of the financial statements and record all material adjustments.

## ***External Audit Methodologies***

### **Communication with Stakeholders**

The External Auditors are responsible to communicate openly with the Audit Committee, Council, and Management. The External Auditor is available to attend any Council meeting to address any additional concerns Councilors may have.

Communication between the Audit Committee and the External Auditor should occur throughout the audit process, but involvement in the planning phase is critical.

The audit plan is the External Auditor's responsibility but it is important that the Audit Committee fully understands it. It is possible for the Audit Committee to ask for the scope of the audit to be expanded.

During the planning phase, the Audit Committee's role is to:

- Approve the terms of the audit, as detailed in the engagement letter. This will set out the responsibilities of the City, the responsibilities of the External Auditor and other logistical matters.
- Approve the audit fee proposal.
- Read and critically assess the audit plan. The audit plan will typically set out the following:
  - Scope of the audit
  - Key areas of business risk for the City
  - Major accounting systems and systems of internal control to be reviewed
  - Extent of planned testing of controls
  - Identification of significant transactions
  - Areas of particular audit interest
  - Nature of the audit procedures to be performed
  - Identification or anticipation of significant changes for the financial statements as a result of new or revised accounting policies and/or regulatory requirements
  - Locations to be visited and audit procedures to be undertaken in respect of those location not visited
  - Coordination with internal audit to avoid duplication of effort and to optimize audit efficiency
  - The extent to which the planned audit scope can be relied upon to detect errors or irregularities
  - The audit timetable
  - Frequency of meetings with the Audit Committee and any reports or other deliverables the Audit Committee and management are likely to receive
  - Auditor independence issues

As with internal audit, the Audit Committee needs to ensure there is a proper mechanism in place to ensure there is a frank and confidential exchange of information with external audit. There should be a standing invitation for the External Auditor to be present at each Audit Committee meeting and there should be a standard practice for the External Auditor to regularly meet alone with the Audit Committee without management or internal audit present.

### **Developing the Audit Scope**

In developing the overall scope for the audit, the External Auditor will take into consideration a number of factors including an assessment of the materiality, key risks and internal controls. Some External Auditors employ a system-based approach that is driven by risk assessment models and capitalizes on robust analytical procedures.

KPMG's audit approach is named Business Measurement Process (BMP), a risk-based audit methodology. BMP is designed to allow the auditor to understand and address the rapidly changing needs of client entities and the risks that threaten their performance. The premise of BMP is that an audit needs to consider risks throughout the entity before offering an opinion on the financial statements. BMP provides audit teams with a methodology to analyze a client's environment in the context of its business and industry to determine how key risks impact financial results.

KPMG performs detailed audit procedures on the business processes that are designed to manage or control the business risks and classes of transactions. An in-depth understanding of the City's overall risk is used to focus audit efforts on specific areas of the financial statements.

Through discussion with operational management, KPMG develops an understanding of how business processes work – this understanding is then used to identify the process-level business risks. Once such an understanding is obtained, the auditor can then identify the controls that are in place to manage the risks.

The auditor then focuses its audit effort on those risks that have a direct financial statement impact. The most significant of these risks relate to insurable risks and litigation.

The benefits to the City include:

- An audit opinion
  - The audit methodology focuses attention on critical audit issues, thereby ensuring a high quality audit.
- Identification of business risks
  - The approach identifies many of the potential business risks facing the City that, if not managed effectively, could negatively impact the financial statements and more importantly, the ongoing operations of the City.

- Providing business-oriented advice
  - The focus on business process allows the auditor to assess how well the City is performing against their own indicators, as well as those of the industry. It is this understanding that allows the auditor to offer actionable operational performance improvements to the City.

### **Conducting the Fieldwork**

In planning and performing an external audit, external auditors don't assume that management is either inherently dishonest or unquestionably honest. External auditors design audit procedures with the assumption of management's good faith. They exercise professional judgement in determining the nature, extent, and timing of their audit procedures; in evaluating their results; and in assessing any determinations made by management.

In carrying out the fieldwork, KPMG prepares an Audit Planning Summary, which covers a number of areas of interest. Each year, the External Auditor:

- Focuses on selected high-risk items that have potential to threaten the City's objectives and strategies and their impact for financial statements and
- Reviews significant financial transactions with external individuals or organizations.

### **Understanding the Business**

KPMG's approach is premised upon the concept that the External Auditor understands the business behind the financial statements in order to conduct an efficient and effective audit.

The Business Model provides a conceptual framework to describe:

- External business drivers that bear upon the City;
- Business relationships with persons outside the City (markets, alliances and customers);
- The products and services offered by the City; and
- Activities carried out within the organization.

Understanding the City's internal and external environment helps the auditor identify the risks that threaten the City's attainment of its business objectives and strategies and to determine how those risks may be manifested in the financial statements (typically as management estimates).

KPMG's BMP audit approach described earlier consists of analysis of strategic management, key business, and resource management processes.

**Strategic Analysis**

During the strategic analysis phase, the auditors prepare “Business Understanding” and “Risk Analysis” documents. Through experience with the City and other municipal governments, enquiry of the City’s management and other personnel, and application of analytical procedures and inspection, the auditor obtains knowledge of the City’s operations at a strategic level that is sufficient to identify and understand:

- Strategic business risks that management has identified that may have a significant effect on the financial statement or audit report.
- Other strategic business risks that may have a significant impact on the financial statements in addition to those identified by management.
- Significant classes of transactions that, in the auditor’s judgment, may have a significant effect on financial statements and/or on the audit.
- Business processes in which the identified business risks are generated.

**Process Analysis**

In the process analysis, the auditor obtains an understanding of how the City manages the strategic business risks that are likely to have a significant effect on financial statements, identifies related financial statement effects, and develops accounting estimates or presentation and disclosure decisions.

The process analysis phase consists of four activities:

- Obtain an understanding of how each key process operates, focusing on identified strategic business risks and significant classes of transactions.
- Obtain an understanding of the process level risks, business controls, and residual business risks.
- Obtain an understanding of the financial statement risks and financial statement controls.
- Use this information to develop audit objectives and conduct preliminary assessments of risks of significant misstatement for each audit objective.

**Developing Observations**

As observations are made, they are factored into the planning and detailed external audit fieldwork. Appropriate actions are taken to either reduce or increase the amount of fieldwork conducted on a particular area/risk or item.

Key observations, i.e., possible control system improvements that may be considered for inclusion into the Management Letter, are discussed with Management. Any key observations that warrant the immediate attention of the Audit Committee will be raised promptly.

## ***Structure and Interpretation of External Audit Reports***

### **Introduction**

The external audit report should identify the financial statements of the entity that have been audited, including the date of and period covered by the financial statements. The report should include a statement that the financial statements are the responsibility of the organization's management and a statement that the External Auditor's responsibility is to express an opinion of the financial statements based on the audit.

The financial statements are the responsibility of the organization's management. In some instances, a document, such as an annual report containing the external audit report, may include a statement by management regarding the responsibility for the presentation of the financial statements. Nevertheless, the external audit report should state that the financial statements are management's responsibility. The statement about management's responsibility, however, should not be further elaborated on in the External Auditor's report or referenced to management's report.

### **Description of Background and Scope**

- The external audit report should describe the scope of the audit by stating that the audit was conducted in accordance with Canadian Generally Accepted Auditing Standards.
- The report should include that the audit was planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatements.
- The audit report should describe the audit as including:
  - Examining on a test basis, evidence to support the financial statement amounts;
  - Assessing the accounting principles used in the preparation of the financial statements;
  - Assessing the significant estimates made by management in the preparation of the financial statements; and
  - Evaluating the overall financial statement presentation.

### **Opinion**

The opinion paragraph of the external audit report will clearly indicate the financial reporting framework used to prepare the financial statements. In addition, it will state the External Auditor's opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework and, where appropriate, whether the financial statements comply with statutory requirements.

In forming the opinion as to whether the financial statements are presented fairly in all material respects in accordance with Canadian GAAP, the External Auditor assesses the accounting principles used in the preparation of the financial statements as well as

evaluating the overall financial statement presentation. In doing so, they exercise professional judgement as to the appropriateness of the selection of the application of the principles to the particular circumstances of an entity and as to the overall effect on the financial statements of separate decisions made in their preparation.

### **Reporting Results**

Reports from the External Auditor are presented to Council through Audit Committee.

As a by-product of the external audit, the auditor delivers a report to the Audit Committee that summarizes the significant findings of the audit. The auditor also reports to the Audit Committee on significant weaknesses in the systems of internal controls, which come to the attention of the External Auditor, and to recommend and follow up on corrective action, if such weaknesses are noted. However, the external audit is not designed to allow the External Auditor to provide an opinion on the systems of internal controls.

### ***Audit Report***

An audit report prepared by the External Auditor expresses an opinion as to the fairness of an entity's financial statements in reporting its financial position and the results of the operations. That opinion may be:

1. Adverse – i.e., that the financial statements taken as a whole do not provide fair presentation.
2. A denial of opinion – i.e., that for reasons which arose in the audit the auditor is unable to express an opinion.
3. A piecemeal opinion – i.e., the auditor gives an adverse opinion or denial on the statements as a whole, but expresses an unqualified opinion in certain specific items in the financial statements.
4. A qualified opinion – i.e., an opinion that includes a qualification re one or several specific items in the statements.
5. An unqualified opinion – i.e., an opinion without reservation or qualification.

Prior to signing the report, the External Auditor will provide:

- A report to the Audit Committee dealing with the results and significant findings from the audit.
- A report on areas of control weakness and potential suggestions for improvement sometimes referred to as the management letter.
- An independence statement.
- Advice of any significant changes in the audit plan, including as a result of the risk assessment process.

**Summary of Other Key Items External Auditors Present to Audit Committee**

- Audit and non-audit services provided to entity and related entities
- Auditor's responsibility under GAAS
- Audit approach summary
- Fraud, illegal acts, significant internal control weaknesses
- Summary of non-trivial errors, whether or not corrected
- Uncorrected audit differences determined by management to be immaterial both individually and collectively
- Matters significantly affecting qualitative aspects of accounting principles selected and applied
- Other matters the auditor believes are important or relevant

***Fraud Awareness***

In 2002, the Canadian Institute of Chartered Accountants approved a new audit standard describing external auditors' responsibility to consider fraud and error in an audit of financial statements ("The Auditors' Responsibility to Consider Fraud and Error in an Audit of Financial Statements"). These standards significantly increase the performance requirements of all assurance professionals conducting Canadian GAAS-based audits of financial statements.

The main requirements consist of in-depth discussion with management about their assessment of the risk that the financial statements may be materially misstated as a result of fraud, controls they have implemented, and whether they are aware of any fraud, suspected fraud or material errors. Further, as part of the overall organization risk assessment, the auditors will consider whether fraud risk factors (indications of the possibility of material misstatement in the financial statements) are present.

The auditors obtain written representations from City management, including statements:

- That management has disclosed to the auditor all significant facts relating to any frauds or suspected frauds.
- That management believes the effects of unadjusted errors accumulated by the auditor are immaterial, both individually and in aggregate.



## **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 has been provided to assist members of the City's Audit Committee to more fully understand the scope and impact of audit activities within the corporation.

The OCA intends to periodically supply members of Council with updates to this material. The updates will address such things as:

- Changes to the external governance environment that impact audit committees,
- Significant changes to audit or accounting standards,
- Information designed to further enhance Audit Committee's evaluation of financial information reports (such as financial statements), etc.



## Appendix 1 – Common Audit Terminology

As is the case with other specialized fields, audit reports often use specialized terminology to convey particular matters in the most efficient manner possible. For those unfamiliar with the meaning of those terms, understanding can be compromised. The following terms are commonly used in audit reports and have specific technical meanings that are not in common usage in society:

**Accrued liabilities** are an amount owing that typically arises from the purchase of goods or services for which, at the date of accounting, the invoice has not yet been received and therefore for which payment has not yet been issued.

**Adjustments** are typically accounting entries made to correct errors or to allocate expenses or revenues prior to closing the books for the period affected.

**Assurance** is the planning, performance, and conclusion of an audit in order to determine whether the financial statements are reasonably free of material misstatement.

**Reasonableness or reasonable assurance** is the recognition that in the normal course of business, few things are perfect, but that within organizationally acceptable bounds, determinations of acceptability can be made, or assurance can be provided. Absolute assurance is not possible.

**Audit risk** is the risk that material misstatements in financial statements may not be discovered during the course of the audit. Audit risk cannot be completely avoided.

**Business risk** is a condition that may occur that would impact an organization's ability to carry out its mandate or a portion of its mandate.

**CICA** is the Canadian Institute of Chartered Accountants, the primary standard-setting body for the practice of accounting and corporate governance in Canada.

**Consulting Services** are advisory and related services intended to improve an organization's business processes. The scope and outputs of these services are negotiated with the client prior to starting the project.

**Corporate Business Risk Planning (CBRP)** – see Enterprise Risk Management.

**Corporate Governance** means more than compliance with specific regulations. It is about managing stakeholder relationships, assessing and managing risk, and communicating responsibly with stakeholders. It is about being in control and being able to demonstrate it. This means management and the Council must focus on reporting requirements, oversight and governance processes, and vulnerability to fraud and misconduct.

**Deferred revenue** is a liability account used to account for deposits or cash received, but not yet earned.

**Enterprise risk management** is a structured and disciplined approach aligning strategy, processes, people, technology and knowledge with the purpose of evaluating and managing the risks an organization faces. Overall it is about choices made under conditions of uncertainty, balanced by acceptable levels of risk to optimize business value. At the City of Edmonton, the process is called Corporate Business Risk Planning (CBRP).

**Fraud** is a deliberate attempt to cover up or hide the misappropriation of an organization's assets (physical, cash, time, etc.) or to misrepresent an organization's financial position to benefit oneself or another person.

**Generally Accepted Accounting Principles (GAAP)** are the rules, conventions and accounting recommendations established by the Canadian Institute of Chartered Accountants to govern the manner in which organizations report their financial results.

**Generally accepted auditing standards (GAAS)** are the standards that guide performance of audits as defined by recognized standard-setting bodies or other authorities. For Canadian external auditors, the applicable standards are primarily those issued by the Canadian Institute of Chartered Accountants. For Canadian municipal internal auditors, the applicable standards are those issued by The Institute of Internal Auditors.

**Governance** is the process of overseeing an organization's management of risk and control processes and is ultimately the responsibility of an organization's board of directors.

**Internal controls** are the system of management controls (business plans, capturing and analyzing data, performance reporting, code of conduct, etc.) that are implemented within an organization to ensure that the organization's assets (human, physical, and information) are protected and to provide reasonable assurance that its objectives can be achieved.

**Institute of Internal Auditors (IIA)** is "the world's leader in certification, education, research, and technological guidance for the profession, The Institute serves as the profession's watchdog and resource on significant auditing issues around the globe."<sup>6</sup>

**Materiality** is a measure of an item's significance in decision-making. Those items that do not have the potential to significantly impact an outcome are judged to be immaterial (not material).

**Opinion** is used to describe the results of an auditor's assessment of an entity or process following a review of supporting data and/or information.

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<sup>6</sup> [http://www.theiaa.org/ecm/iiaglance.cfm?doc\\_id=266](http://www.theiaa.org/ecm/iiaglance.cfm?doc_id=266), retrieved 2003 February 11.

**Permanent impairment** is a reduction in value of an asset (building, land, equity, etc.) that cannot be reasonably forecast as being recoverable in the longer term.

**Resource management processes** are business processes that provide support and appropriate resources to the other business processes.

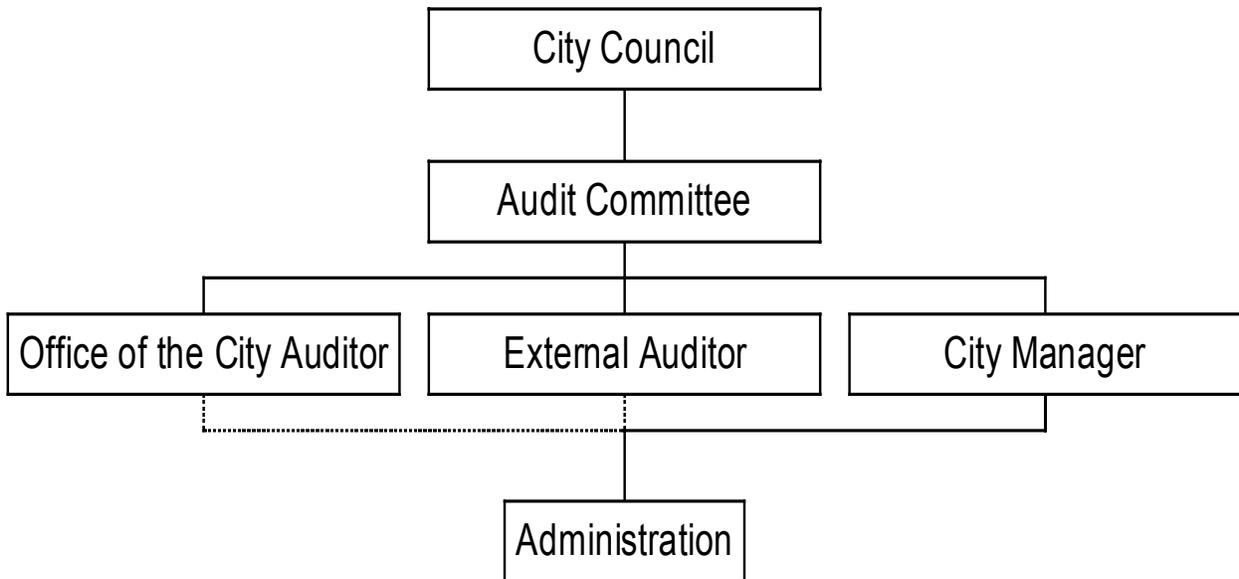
**Risk** refers to the uncertainty that surrounds future events and outcomes. It is the expression of the likelihood and impact of an event with the potential to influence the achievement of an organization's objectives..

**Risk analysis** is the identification, categorization and assessment of risks.



## Appendix 2 – Audit Responsibility Chart

City of Edmonton Audit Responsibility





## Appendix 3 – Audit Committee Terms of Reference

### Terms of Reference Audit Committee of City Council

#### ***Purpose***

The Committee's purpose is to assist City Council in fulfilling its responsibilities to oversee the City's systems of financial reporting, internal controls, and corporate governance.

#### ***Membership***

The Audit Committee will be a standing committee of City Council and shall consist of the Mayor and four members of City Council. The membership, chair, and terms of appointment to the Committee will be the same as that of Executive Committee. In the conduct of its meetings, the Committee will follow the terms of Bylaw 12300, Procedures and Committees.

#### ***Authority***

In general, the Audit Committee has direct authority to decide to receive reports and other items that come before it as information or to refer them to City Council with or without associated recommendations. If reports or other matters are received as information, they will not normally be referred on to City Council. Receiving reports for information implies that the Committee will satisfy itself that the reports adequately and appropriately reflect the findings of the auditors and that any management responses are acceptable. In addition, the Committee has authority to approve modifications to work plans for the internal and External Auditor and to evaluate the results of reviews of the Office of the City Auditor.

In exercising its authority, the Audit Committee will normally rely on the work of the City Auditor and the City's External Auditor to form its conclusions regarding the:

- Effectiveness and efficiency of City operations including internal control systems,
- Adequacy and appropriateness of the City's governance policies and practices, and
- Adequacy and appropriateness of the City's financial policies and practices.

The Audit Committee has the direct authority to:

- Receive reports for information,

- Interact 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
- Review the selection process for the External Auditor,
- Review and analyze the City's financial statements,
- Approve modifications to the annual work plans of the City Auditor and the External Auditor,
- Solicit and coordinate input from all Councillors regarding the performance review of the City Auditor,
- Review and evaluate the results of periodic peer reviews of the Office of the City Auditor,
- Conduct an annual review of these Terms of Reference to ensure that it continues to be an effective governance instrument, and
- Make recommendations to Council regarding any further actions or decisions the Committee deems appropriate.

The Audit Committee may choose to refer any of these items forward to City Council for additional consideration or action if, in its judgement, the items warrant more comprehensive consideration.

The Committee has the authority and responsibility to recommend to City Council:

- The annual work plans of the City Auditor and External Auditor,
- The City Auditor's annual budget request,
- Evaluation of the performance of the City Auditor and appropriate compensation adjustments,
- The appointment, reappointment, or dismissal and the fees of the External Auditor,
- The City Auditor's annual report and long term work plan,
- The External Auditor's annual report related to the City's 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 changes to these Terms of Reference.

### ***Meetings***

Meetings of the Audit Committee will be scheduled each quarter to deal with audit matters. The City Auditor and the City Manager will establish the agendas for all Audit Committee meetings. Audit matters requiring immediate attention may be addressed by either:

- Calling a special meeting of the Audit Committee in accordance with section 17 of Bylaw 12300, Procedures and Committees, or
- By taking the matter directly to City Council.

### ***Roles and Responsibilities***

The Committee functions as the representative of Council in its interactions with the City Auditor, the External Auditor, and the Administration. Audit work in the City is conducted under either a guardian role or an agent of change role or a combination of both, depending on the nature of the project. Under the guardian role, projects are conducted that focus on financial reporting, control systems, and protection of City assets. Under the agent of change role, projects are focussed on improving the efficiency and effectiveness of operations. There are significant differences in the manners in which guardian and agent of change projects are conducted, but the desired outcome for both is improvement of the overall operation of the City. One of the primary functions of Audit Committee members is to be prepared to ask questions of both the auditors and the Administration to clarify the implications of audit observations and recommendations and of responses from the Administration.

### **Annual Review**

The Committee will conduct an annual review of these Terms of Reference and submit recommendations for changes as appropriate to City Council for approval. During this review, the Committee will also conduct an evaluation of the effectiveness of its performance with the intent of identifying means of enhancing its overall effectiveness.

### **Financial Reporting**

The Committee's role is to provide assurance to Council that financial disclosures made by the Administration fairly present the City's financial condition, results of operations in accordance with Generally Accepted Accounting Principles (GAAP), and long-term commitments. In carrying out this primarily guardian responsibility, the Committee's role includes:

- Reviewing and evaluating the City's accounting policies and policy decisions,
- Examining the City's financial statements (including variance reports, auditor's opinions and management letters, and other related reports),
- Reviewing the selection process for the External Auditor to ensure ongoing independence, fairness, value-for-money, and adequacy of the selection criteria,
- Recommending, in consultation with the Administration, the appointment or reappointment and fees of the External Auditor, and
- Overseeing the External Auditor's annual work plan.

To ensure that the Committee has access to the required financial and audit skill sets for this oversight role, the following provisions will be implemented:

The CFO will serve as the Committee's primary contact with the External Auditor. The City Auditor will:

- Work closely with the CFO and the Audit Committee in selecting the External Auditor and in monitoring their activities,
- Represent the Committee in its guardian role, and
- Report appropriate observations and recommendations to the Committee and provide input to the Committee regarding issues for it to discuss with the Administration relating to matters identified by the External Auditor.

The External Auditor is ultimately responsible to City Council through Audit Committee.

### **Internal Controls**

The Committee's role is to provide assurance to Council through exercise of its agent of change and guardian functions that the City's key strategic business risk areas, systems of internal controls, and financial reporting processes and policies are functioning properly. The primary responsibility for implementing and maintaining systems of internal controls lies with the Administration. The Committee will monitor these areas primarily through the work of the City Auditor. In accordance with the provisions of Bylaw 12424, City Auditor, the City Auditor will provide the Committee with regular reports designed to assist the Committee in evaluating:

- The City's exposure to and management of strategic, business, and operational risks,
- The efficiency and effectiveness of internal control systems,
- The efficiency and effectiveness of City operations,
- The level of operational commitment to the principles of continuous improvement, and
- Other internal control issues as appropriate.

### **Corporate Governance**

The Committee's role is to provide assurance to Council through exercise of its guardian and agent of change functions that the City is in compliance with pertinent laws and regulations, is conducting its affairs ethically, and is maintaining effective controls against conflict of interest and fraud. The Committee will monitor these areas primarily through the work of the City Auditor. The City Auditor will provide the Committee with periodic reports related to:

- Assessments of the adequacy and effectiveness of corporate policies related to compliance with laws, regulations, ethics, and conflict of interest,

- Investigation of employee conflict of interest, misconduct, or fraud in accordance with Policy A1100C, Code of Conduct or Policy A1431, Conduct of Examinations into Allegations or Suspicions of Fraudulent Acts (as applicable),
- Evaluation and improvements of the process through which organizational values and goals are established and communicated,
- Evaluation of the extent to which operations and programs produce results consistent with their established goals and objectives,
- Evaluation of performance monitoring and reporting by operational areas, and
- Other governance issues as appropriate.

***In-Private Meetings***

Subject to the provisions of the Municipal Government Act, the Committee may choose to schedule regular in-private sessions during the regular Committee meetings with the auditor(s) and without senior managers present and vice versa. The purpose of such meetings would be to hear any informal comments the auditor(s) and/or senior managers may wish to make regarding reported audit observations and to speak candidly on emergent issues that aren't appropriately discussed in a public forum.



## Appendix 4 – Excerpts from Bylaw 12300, *Procedures and Committees Bylaw*

### ACCESS TO RECORDINGS AND TRANSCRIPTS

- 38 (1) The City Manager will supervise access to the recordings.
- (2) No one will be entitled to make any changes to the recordings.
- (3) Recordings may only be transcribed by resolution of Council unless they are required:
- (a) by the City Manager in connection with litigation, and
  - (b) by the City Auditor in connection with any audit, investigation or study being undertaken.
- (S.6, Bylaw 12426, November 21, 2000)

### ADMINISTRATIVE INQUIRY

- 41 (1) Any Councillor may make an Administrative Inquiry through the Chair to the City Manager at any regular meeting:
- (a) of City Council; or
  - (b) the appropriate Standing Committee.
- (1.1) Councillors cannot make any Administrative Inquiries to the City Auditor.
- (S.7, Bylaw 12426, November 11, 2000)
- (2) Administrative Inquiries made at a Standing Committee must be made at the Standing Committee that would normally deal with the issue.
- (3) Administrative Inquiries cannot be made at Special City Council or Special Standing Committee meetings.

### 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.

(S.4, Bylaw 13217, November 26, 2002)

**MEMBERSHIP OF  
STANDING  
COMMITTEES**

- 148 The membership of the Executive Committee, Transportation and Public Works Committee and Community Services Committee will be determined as follows:
- (a) four Councillors will be appointed to each of the Transportation and Public Works Committee and Community Services Committee, and the Mayor and four other Councillors to the Executive Committee;
  - (b) membership will rotate among Councillors, except the Mayor, so that during a term of office, each Councillor, except the Mayor, serves for a total of one year on each Committee; and
  - (c) if a Councillor vacates the office of Councillor during the term of office;
    - (i) the person elected as Councillor in a by-election must take the place of the vacating Councillor in the rotation schedule of Committee membership until the next General Election; or
    - (ii) if no by-election is held, Council may appoint another Councillor to fill the vacancy.

- 149 All Councillors may attend any meeting of any Standing Committee and participate in debate, but may not make motions or vote.

**MAYOR EX  
OFFICIO MEMBER**

- 150 (1) The Mayor is a member by virtue of office, of all Committees, unless Council has decided that the Mayor is an actual member of a particular Committee.
- (2) If the Mayor is a member by virtue of office and is present at a Committee meeting, the Mayor must be counted to determine quorum and has all of the rights and privileges of the other Committee members including the right to make motions and vote.

**ALTERNATE  
MEMBERS FOR**

- 151 (1) If quorum is not possible because of the absence of one or more members of a Standing Committee, any Councillor present at the

<b>QUORUM</b>		Standing Committee meeting will become an alternate member of the Committee and will be counted to determine quorum.
		(2) If more than one Councillor is present, priority for selection as an alternate member will be determined in accordance with the Deputy Mayor rotation schedule, beginning with the current Deputy Mayor.
		(3) Alternate membership will cease when there is a quorum of members regularly appointed under this bylaw.
<b>AUTHORITY OF STANDING COMMITTEES</b>	152	Standing Committees have full authority to exercise or perform any power or duty delegated under this or any other bylaw.
<b>REQUISITION A MOTION TO COUNCIL</b>	153	Any two members of a Standing Committee may, prior to a vote being taken, request that an item be referred to Council and it must be referred without debate.
<b>DIRECT REPORTING TO COUNCIL</b>	154	Any Standing Committee may submit its reports directly to Council without a Committee recommendation.
<b>APPROPRIATION OF FUNDS</b>	155	Standing Committees must not appropriate, expend or direct the expenditure of any money not provided for in the budget approved by Council or by a special or supplementary budget adjustment approved by Council.
<b>STANDING COMMITTEE CHAIR</b>	161	(1) Each Committee, except the Executive Committee and Council Services Committee, will elect a Chair from among the members of the Committee at the first meeting after each organizational meeting.  (2) If the Committee is unable to elect a Chair, then Council must select the Chair from among the members of the Committee at the next regular Council meeting.
<b>STANDING COMMITTEE VICE-CHAIR</b>	162	(1) The members of the Committee must elect a Vice-Chair who will preside at meetings of the Committee in the absence of the Chair.  (2) If neither the Chair nor Vice-Chair is present at a Committee meeting, the Committee must elect a Chair from among its members for that meeting.
<b>DUTIES OF STANDING COMMITTEES</b>	163	Executive Committee, Community Services Committee and Transportation and Public Works Committee:

- (a) deals with reports from the departments and other organizations listed in Schedule B;
- (S.9, Bylaw 12426, November 11, 2000)
- (b) recommends to Council membership appointments to the Council Committees listed in Schedule B;
  - (c) recommends to Council budget adjustments for those departments and Council Committees listed in Schedule B;
  - (d) enters into contracts or agreements which exceed the delegated authority of the City Manager or where the City Manager refers the contract or agreement to it; and
  - (e) deals with other matters referred to it by Council.

**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) solicits and co-ordinates input from all Councillors regarding the performance review of the City Auditor;
- (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)

**RULES  
GOVERNING  
DEBATE IN  
STANDING  
COMMITTEE**

- 169 Unless otherwise stated, the following rules apply to Standing Committees:
- (a) motions need not be seconded;
  - (b) there is no limit to the number of times a member may speak to a question;
  - (c) a motion for the Previous Questions will not be allowed;
  - (d) informal discussion of a subject is permitted when no motion has been made; and
  - (e) the Chair may make motions, participate in debate and vote on all motions without leaving the Chair.

**COUNCIL RULES  
TO SUPPLEMENT  
COMMITTEE  
RULES**

- 170 Unless specific rules for Standing Committee procedures exist, Standing Committees must follow the procedural rules of Council.

**APPOINTING  
COUNCIL  
COMMITTEES**

- 171 (1) Council may by bylaw establish a Council Committee to investigate and report to Council or a Standing Committee on any matter.

- (2) Council may appoint, by resolution, Councillors, city employees or other individuals to Council Committees.
- (3) When a Council Committee is established by bylaw, Council must:
  - (a) name it;
  - (b) establish Terms of Reference;
  - (c) establish the term of appointment, or direct that the committee exists at the pleasure of Council;
  - (d) establish requirements for reporting to Council or a Standing Committee; and
  - (e) allocate any necessary budget or other resources.

**PROCEDURES FOR  
COUNCIL  
COMMITTEES**

172 The procedures outlined in sections 173 to 179 are the minimum requirements to be followed by Council Committees.

**REGULAR  
MEETINGS OF  
COUNCIL  
COMMITTEES**

- 173 (1) A Council Committee may establish, on an annual basis, a schedule of its meetings.
- (2) An annual schedule established under (1) must be filed with the Office of the City Clerk a minimum of three working days prior to the first meeting.

**CALL OF  
MEETINGS**

- 174 (1) The Chair may call a meeting of the Committee at any time and must do so if a majority of Committee members so request in writing, including a statement of the purpose of the meeting.
- (2) A special meeting requested by Committee members must be held within 14 days after the request is received.

**NOTIFICATION OF  
COMMITTEE OF  
COUNCIL  
MEETINGS**

175 Notice of Committee of Council meetings not approved in their annual schedule or cancellation of a previously called meeting must comply with section 18 of this bylaw and be filed with the Office of the City Clerk a minimum of 48 hours prior to the meeting.

**QUORUM**

176 Quorum is a majority of members of a Council Committee unless specified otherwise by this or any other bylaw.

**MINUTES**

- 177 (1) Minutes must be prepared for all Council Committee meetings and will include:
- (a) all decisions and other proceedings;

- (b) the names of the Committee members present at and absent from the meeting;
  - (c) any abstentions made under the *Municipal Government Act* by any member and the reason for the abstention; and
  - (d) the signatures of the Chair, and the Recording Secretary.
- (2) Minutes must be retained in a safe manner and must be made available upon request

**ADOPTION OF  
MINUTES**

178

The minutes of each meeting must be circulated prior to the meeting at which they are to be adopted:

- (a) if there are errors or omissions, the Committee must pass a motion to amend the minutes and adopt the minutes as amended; or
- (b) if there are no errors or omissions, the Committee must adopt the minutes as circulated.

**COUNCIL RULES  
TO SUPPLEMENT  
COUNCIL  
COMMITTEE  
RULES**

179

Council Committees may adopt any of the other procedural rules of City Council other than the ability to ask Administrative Inquiries.



## Appendix 5 – City Auditor Bylaw

**CITY OF EDMONTON**  
**BYLAW 12424**  
**CITY AUDITOR BYLAW**  
**(As Amended by Bylaw 13218)**

**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</li> </ul> |

- established under Bylaw 12300, Procedures and Committees Bylaw,
- (c) **“City”** means the municipal corporation of the City of Edmonton;
  - (d) **“City Auditor”** means the person appointed pursuant to 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”** means a person employed by the City and includes a person who performs a service for the City as an appointee, volunteer or student or under a contract or agency relationship with the City;
  - (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.

**RULES FOR INTERPRETATION** 3 The marginal notes and headings in this bylaw are for reference purposes only.

## **PART II - APPOINTMENT AND DELEGATION**

**DESIGNATED OFFICER** 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.”

**APPOINTMENT OF CITY AUDITOR** 5 Council will, by resolution, appoint an individual to the position of City Auditor, and establish terms and conditions of such appointment.

**INDEMNITY** 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.

**SUBDELEGATION** 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.

**ACCOUNTABILITY** 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**

**ROLES** 9 The City Auditor will have two roles:

- (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
- (b) Guardian Role – projects directed primarily towards providing assurance through review of existing operations, typically focussing on compliance, efficiency, effectiveness, economy, and controls.

**AUDIT DUTIES** 10 (1) The City Auditor is responsible for all internal auditing activities within City Programs and City Agencies including:

- (a) independent, objective assurance and consulting activities 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 quarterly to Council:
- (a) a report summarizing the status of projects, and
  - (b) a report detailing budget performance of the City Auditor.

**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.

**ANNUAL REPORT**

15 The City Auditor will submit to Council an Annual Report that will include:

- (a) a synopsis of activities undertaken by the City Auditor;

- (b) an analysis of the trends that can be drawn from the audits, investigations and studies that were conducted;
  - (c) a summary of performance measures and accomplishments; and
  - (d) all other matters that the City Auditor deems relevant.
- SPECIAL PROJECTS** 16 (1) Council may instruct the City Auditor to conduct a Special Project involving any Program or Civic Agency.
- (2) When the City Manager submits a written request to the City Auditor for a special project, the City Auditor must:
- (a) prepare a report addressing the concerns of the City Manager, or
  - (b) submit with the quarterly report, a list of requests that cannot be entertained, including reasons.
- (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.
- STANDARDS** 17 (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.
- (2) The City Auditor must follow generally accepted standards for the professional practice of audits.
- EMERGENT ISSUES** 18 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.
- ASSIST IN IMPLEMENTATION** 19 The City Auditor will provide any clarification required to assist in implementation of approved recommendations.

#### **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.
- FREEDOM OF INFORMATION AND PROTECTION OF PRIVACY ACT** 21 The City Auditor will comply with the City's obligations and administrative structure under the *Freedom of Information and Protection of Privacy Act*.
- FRAUD POLICY** 22 The City Auditor and the City Manager will cooperate in development of a fraud policy and a code of ethics policy for the City.
- 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.

<b>EMPLOYEES ON SITE</b>	24	The City Manager will provide reasonable accommodation for the City Auditor at the location where an audit, investigation, or review is being conducted.
<b>OPEN COMMUNICATION</b>	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**

<b>POWERS, DUTIES AND FUNCTIONS</b>	26	<p>The City Auditor:</p> <ul style="list-style-type: none"> <li>(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;</li> <li>(b) may exercise the powers, duties, and functions as may be required by Council from time to time;</li> <li>(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;</li> <li>(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;</li> <li>(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;</li> <li>(f) is authorized to implement learning and safety programs for staff;</li> <li>(g) is authorized to settle employment related disputes at the department level;</li> </ul>
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- (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; and
  - (f) other governance issues as appropriate.

#### **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.



## Appendix 6 – Sample Questions for Members of Audit Committee

The environment in which all boards operate – corporate and not-for-profit – has changed fundamentally and will continue to evolve. If there is a single question that all audit committees might want answered it would be whether their financial statements are in compliance with generally accepted accounting principles. The role of oversight has always been fundamental, but not always primary. The primacy of the oversight role has never been clearer than it is today.

One truth has not changed regarding effective audit committee members in particular. Knowing the questions to ask and being willing to ask them is a major responsibility.

Below are some examples of questions to consider as the committee evaluates the City's risks and how they are managed.

### *Questions for Management*

The Audit Committee should consider posing questions relating to internal operations and controls to management. For example:

- Does our system of controls provide reasonable assurance about the accuracy of the financial statements and other information received by the committee? What year-end or other unusual adjustments are expected? What types of adjustments were made this year and why?
- How does our system of controls provide reasonable assurance that assets are safeguarded, transactions are authorized, and policies followed?
- Were there significant accruals reflected in the financial statements? If so, what types of reasonableness standards were applied?
- Have there been any legal matters identified that have not been presented to Council but that could affect future financial statements? If so, please describe them.
- Have there been changes to post-retirement benefit valuations or assumptions that could impact future liabilities?
- How does management routinely receive the information it needs and wants to manage the City? If it is not receiving the information on a routine and timely basis, why not? What is missing?
- Has your relationship with the external auditor been indicative of both strong communication and independence?
- How are compliance and risk management processes and controls working? How do we ensure that significant control matters are reported to the Council? What systems are in place to ensure compliance with applicable laws and regulations?
- What are the key business and operational risks we face today and how are we addressing them?
- How satisfied are you that your risk management, contingency, and business continuity plans are adequate to deal with sudden and unexpected adverse events?

- Has the City entered into any off-balance-sheet transactions or guarantees?
- What exposures does the City have to loss of revenues through uncollectable accounts? What observed trends have there been in levels of these accounts?
- What practices has management instituted to identify and disclose potential conflicts of interest?
- What processes are in place to ensure that City staff know how to report suspected instances of fraud or code of conduct violations?
- What steps have been taken to ensure that information systems operate in an environment of reasonable security from internal and external misuse? Should more be done?
- What issues keep senior management up at night?

### ***Questions for the External Auditor***

- If the auditor were solely responsible for preparing the City's financial statements and disclosures, would they be different in either material or non-material ways? If yes, explain how.
- Is the organization following the same internal control procedures and internal audit procedures it would if the auditor were running the City? If not, what are the differences and why?
- What have you done to ensure that there are no significant unrecorded liabilities?
- What steps have been taken during the financial statement audit to identify instances of failure to implement appropriate segregation of duties?
- Is our accounting staff as deep and strong as it should be?
- Do we have a sufficient resource commitment to the internal auditing function? How do we compare with similar organizations?
- What are the nature and size of any non-audit services provided by your firm to management in the past year?
- If we decide partner rotation is in our interest for independence reasons, who would succeed our engagement partner?
- What is our biggest strategic risk? Why?
- What is your biggest audit risk?
- Could you comment on the quality and timeliness of the internal reporting systems?

### ***Questions for the Internal Auditor***

Recognizing the important role of internal audit and its changing activities in today's business environment, the Audit Committee should also consider the following questions as it oversees the internal audit function.

- How does the OCA best add value to the business model?

- How effectively does the City use the OCA to evaluate management's response to strategic, financial, technological, security and operational risks?
- What steps do you take during your audit projects to identify instances of failure to implement appropriate segregation of duties?
- How is the OCA involved in promoting process improvements and best practices sharing?
- Is internal audit training ground for future leaders?
- Does the OCA have the resources and appropriate expertise to satisfy its responsibilities?

***Questions Regarding Enterprise Risk Management***

By asking probing questions in regard to risk management, Audit Committee can help bring clarity to the assessment of the processes used to manage risk. This section will be developed as the City's process (CBRP) is defined and implemented. Members of Council will receive regular progress reports as the project moves forward.



## **Appendix 7 – Report of the Joint Committee on Corporate Governance**

The report begins on the next page.

Note: The electronic version of this document can be accessed at:  
[http://www.jointcomgov.com/index.cfm/ci\\_id/8113/la\\_id/1.htm](http://www.jointcomgov.com/index.cfm/ci_id/8113/la_id/1.htm) (a CICA website).