



City of Mississauga


EQA Self Assessment with Independent Validation

Final Report

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EXECUTIVE SUMMARY

Background

The Internal Audit Department ("IA") at the City of Mississauga ("the City") plays a critical role in enabling the organization to achieve its mission, vision and strategic objectives, as well as to uphold the commitment to quality, providing assurance and consulting services designed to add value and improve the operations of the organization in alignment with the Three Lines Model. In this regard, IA monitors the state of the City's governance and internal controls to ensure it supports the mission, vision, and strategic objectives of the organization as a whole, while adhering to the International Standards for the Professional Practice of Internal Auditing ("Standards" or "IPPF") of the Institute of Internal Auditors ("IIA"). In compliance with the Standard 1300, the City IA Department has instituted a Quality Assurance and Improvement Program ("QAIP").

The City conducted an External Quality Assessment ("EQA") in 2017 (with report issued to management in January 2018) which was administered as a self-assessment with independent validation in accordance with Standard 1311. In accordance with best practices and the IIA's IPPF Standard 1312, MNP conducted an Independent External Validation of City's IA Quality Self-Assessment, as requested by the City's Director, Internal Audit.

Objective

The objective of the engagement was to assess the City's IA Self-Assessment on conformity to the IIA IPPF Standards to provide recommendations on improving performance, and identify opportunities to enhance the IA's management of resources and work processes.

Scope

The IIA's IPPF Standard 1300, requires that the Chief Audit Executive develop and maintain a QAIP that covers all aspects of the internal audit function. The scope of the engagement included the following elements:

- A conclusion with respect to alignment of the EQA Self-Assessment program with the Standards; and,
- Specific observations regarding opportunities for improvement of the Self-Assessment program relative to the Standards and best practices.

Conformance to IIA IPPF Standards

Based on our collective analysis, the City generally conforms to the IIA IPPF Standards including the Definition of Internal Auditing, Code of Ethics, and Standards. For a detailed list of conformances to individual IPPF Standards, please refer to **Appendix B**. Opportunities have also been identified for further improvement, details of which are provided in this report.

“Generally Conforms” is the top rating and means that the IA has a charter, policies, and processes that are assessed to be in conformance with the IPPF Standards, in all material respects. The IIA’s Quality Assessment process utilizes a scale of three ratings, “**Generally Conforms**,” “**Partially Conforms**,” and “**Does Not Conform**” defined as follows:

- **Generally Conforms** is the top rating and means that an IA has a charter, policies, and processes that are assessed to be in conformance with the IPPF Standards, in all material respects.
- **Partially Conforms** means deficiencies in practice are noted that deviate from the IPPF Standards, but these deficiencies do not preclude the IA from performing its responsibilities in an acceptable manner and achieving conformance with a majority of the individual IPPF Standards.
- **Does Not Conform** means deficiencies in practice are assessed to be significant as to have a negative effect on the IA effectiveness by not achieving conformance with a majority of the individual IPPF Standards.

Acknowledgements and Limitation of Use

We would like to express our appreciation for the cooperation and efforts made by the City personnel, whose contributions assisted in ensuring a successful engagement.

This report is intended solely for the information and use of the City. Any use that a third party makes of this report, and any reliance or decisions made based on it, are the responsibility of such third party. MNP accepts no liability or responsibility for any loss or damages suffered by any third party as a result of decisions made or actions taken based on this report.

Report Distribution List

This report was addressed to the Audit Committee and copied to the following parties:

- Joe Horneck – Councillor, Chair of Audit Committee
- Luis Souza – Director, Internal Audit
- Yianni Foufas - Senior Internal Auditor, Internal Audit

POSITIVE ATTRIBUTES AND OBSERVATIONS

Positive Attributes

The following successful practices were observed:

- A good reputation and established credibility with other departments within the City was confirmed during stakeholder interviews and survey. Stakeholders believe that the IA activity and scope have been objective, appropriate and that IA is providing value-added services to the City.
- There are strong communication plans between the senior leadership team and IA, and the Director, Internal Audit meets with all senior leadership members on a regular basis to discuss audit related matters.
- An Internal Audit Charter exists and is approved by the Audit Committee.
- Internal auditors possess the knowledge, skills, competencies and certifications needed to perform their individual responsibilities.
- IA develops a 3-Year Audit Plan using a risk-based methodology, including consideration of any risks or control concerns identified by management. The annual work plan for 2022-2024 was developed and approved.
- IA reports quarterly to the Audit Committee, and have free access to the Councillor who acts as the Chair of the Audit Committee when needed. In addition, in-camera sessions with the Audit Committee can be requested by the Director, Internal Auditor when needed.
- IA develops and provides an Internal Audit Strategic Plan to the City, based on the consideration of the City's Strategic Plan, 3-Year Audit Plan, Corporate Risk Assessment results, and other relevant factors.
- IA has implemented a staff rotation program to ensure adequate knowledge and skills are transferred within the department.

Our recommendations and improvements are intended to build on the foundations already in place within IA.

Observations and Recommendations

To enable management to prioritize their action plans, we have reported our observations in one of three categories, "**Low**", "**Moderate**" or "**High**" based on our assessment of the significance of each observation as it relates to conformance with the IPPF Standards. Highlights of the recommendations are set forth below in the **Summary of Key Observations** section, with details in **Appendix A**.

SUMMARY OF KEY OBSERVATIONS

To enable management to set priorities in their action plans, compliance observations outlined in this report have been prioritized based on a rating scale defined in the table below:

Rating	Rating Description
Low	The activity generally conforms but should be addressed in the longer term to either improve effectiveness of the internal audit mandate or efficiency/perceived value of its function.
Medium	The activity partially conforms and should be addressed in the short to intermediate term to either improve effectiveness of the internal audit mandate or efficiency/perceived value of its function.
High	The activity does not conform and should be given immediate attention due to the existence of either a potentially significant weakness or improvement opportunity.

Additionally, the IIA has established the following ratings for assessing a Department's conformance to the IPPF Standards. These ratings have also been used to evaluate the degree of the IA's conformance with each of the IPPF Standards.

Rating	Rating Description
GC = Generally Conforms	"Generally Conforms" means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual IPPF Standard or element of the Code of Ethics, in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual IPPF Standards or elements of the Code of Ethics, and at least partial conformity to the others, within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the IPPF Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, "successful practice," etc.
PC = Partially Conforms	"Partially Conforms" means the evaluator has concluded that the activity is making good-faith efforts to comply with the requirements of the individual IPPF Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the IPPF Standards or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organization.
DNC = Does Not Conform	"Does Not Conform" means the evaluator has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual IPPF Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the

	activity's effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.
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The chart below provides a summary of our observations, based on the rating scales outlined above. Detailed observations and recommendations can be found in **Appendix A** of this report.

MNP has also identified opportunities for improvement, which are listed in the table below as General Recommendations. These items do not require ranking as they are provided to management for their consideration and implementation as area of improvement.

Observation:	RATING			Ref.
	DNC	PC	GC	
Part 1: Compliance to the IPPF Standards				
<u>Independence and Objectivity</u> MNP noted that the performance evaluation of the Director, Internal Audit was performed by the City Manager instead of the Audit Committee as recommended by the IPPF Standards.				1
<u>Documented Approval of Work Program and Working Papers</u> Although the review of the work program and working paper was performed, the formal approval documentation of the work program and working papers review for the selected audit sample was not retained.				2
<u>Document Retention and Disposal Policy</u> We noted that while a Records Retention Schedule By-law exists for the City, there is no retention and disposal policy specifically for IA, as suggested by the Standards.				3
Part 2: General Recommendations				
<u>Engagement Overall Opinion</u> Upon review of the selected sample audit, we noted that conclusions, recommendations and action plans were included, however, an overall IA opinion was not provided.				4
<u>Code of Ethics Declaration</u> IA does not have a process in place to obtain an annual independence or ethics declaration for IA team members who are not certified IIA members.				5

Observation:	RATING			Ref.
	DNC	PC	GC	
<u>Internal Audit Department Succession Plan</u> Succession planning is a process for identifying and developing internal people with potential to fill key business leadership positions in the organization either to cover short term absences or longer term planned departures. Currently, there is no formal succession plan in place for IA.				6

SUMMARY OF THE EQA

On the basis of our assessment, The City “generally conforms” to the IPPF Standards as illustrated below. Our detailed assessment of the City’s performance against the IPPF Standards can be found in **Appendix B**.

IIA IPPF Standard	Description	GC	PC	DNC
Attribute Standards				
1000 – Purpose, Authority and Responsibility	The purpose, authority, and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The chief audit executive must periodically review the internal audit charter and present it to senior management and the board for approval.	✓		
1100 – Independence and Objectivity	The internal audit activity must be independent, and internal auditors must be objective in performing their work.	✓		
1200 – Proficiency and Due Professional Care	Engagements must be performed with proficiency and due professional care.	✓		
1300 – Quality Assurance and Improvement Program	The chief audit executive must develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.	✓		
2000 – Managing the Internal Audit Activity	The chief audit executive must effectively manage the internal audit activity to ensure it adds value to the organization.	✓		
2100 – Nature of Work	The internal audit activity must evaluate and contribute to the improvement of the organization’s governance, risk management, and control processes using a systematic, disciplined, and risk-based approach. Internal audit credibility and value are enhanced when auditors are proactive and their evaluations offer new insights and consider future impact.	✓		
2200 – Engagement Planning	Internal auditors must develop and document a plan for each engagement, including the engagement’s objectives, scope, timing,	✓		

IIA IPPF Standard	Description	GC	PC	DNC
	and resource allocations. The plan must consider the organization's strategies, objectives, and risks relevant to the engagement.			
2300 – Performing the Engagement	Internal auditors must identify, analyze, evaluate, and document sufficient information to achieve the engagement's objectives.	✓		
2400 – Communicating Results	Internal auditors must communicate the results of engagements.	✓		
2500 – Monitoring Progress	The chief audit executive must establish and maintain a system to monitor the disposition of results communicated to management.	✓		
2600 – Communicating the Acceptance of Risks	When the chief audit executive concludes that management has accepted a level of risk that may be unacceptable to the organization, the chief audit executive must discuss the matter with senior management. If the chief audit executive determines that the matter has not been resolved, the chief audit executive must communicate the matter to the board.	✓		

Appendix A: Detailed Observations and Recommendations

#	Observation	Rating	Recommendation	Management Response
1	<p><u>Independence and Objectivity</u></p> <p><u>Attribute Standard 1110:</u></p> <p><i>The chief audit executive must report to a level within the organization that allows the internal audit activity to fulfill its responsibilities. The chief audit executive must confirm to the board, at least annually, the organizational independence of the internal audit activity.</i></p> <p><u>Practice Advisory 1110-1:</u></p> <p><i>Organizational independence is effectively achieved when the chief audit executive reports functionally to the board. Examples of functional reporting to the board involve the board:</i></p> <ul style="list-style-type: none"> • Approving the internal audit charter. • Approving the risk-based internal audit plan. • Approving the internal audit budget and resource plan. • Receiving communications from the chief audit executive on the internal audit activity's performance relative to its plan and other matters. • Approving decisions regarding the appointment and removal of the chief audit executive. • Approving the remuneration of the chief audit executive. 	GC	<p>The responsibilities associated with the administrative and functional reporting lines of the Director, Internal Audit should be reviewed and adjusted to be in conformance with the IPPF Standards and the Audit Committee Terms of Reference.</p> <p>Specifically:</p> <ul style="list-style-type: none"> • The results of the performance evaluation for the Director, Internal Audit role should be completed in consultation with the Councillor who acts as the Chair of the Audit Committee to seek inputs and feedback; and, • The Audit Committee Terms of Reference should 	<p>Action Plan:</p> <p>The Director, Internal Audit's salary approval follows the salary approval rules followed for all staff, and is part of the IA budget. The Director, Internal Audit will speak with the City Manager and the Audit Committee Chair to determine if a process can be instituted to obtain inputs from the AC Chair during the Director, Internal Audit salary and performance reviews.</p> <p>Accountable Party:</p> <p>Luis Souza, Director, Internal Audit</p> <p>Due Date:</p> <p>Q1 2024</p>

#	Observation	Rating	Recommendation	Management Response
	<ul style="list-style-type: none"> <i>Making appropriate inquiries of management and the chief audit executive to determine whether there are inappropriate scope or resource limitations.</i> <p><u>Internal Audit Director's Performance Evaluation</u></p> <p>MNP noted that the performance evaluation of the Director, Internal Audit was performed by the City Manager instead of the Audit Committee, as recommended by the IPPF Standards. The Director's remuneration is part of the Internal Audit budget and approved by the Council.</p> <p>The performance evaluation has an impact on determining the remuneration of the Chief Audit Executive, which is one of the examples of functional reporting laid out by the IPPF Standards, and hence the current structure of the City Manager conducting the performance evaluation of the Director, Internal Audit may be perceived as a conflict of independence.</p>		be updated to reflect that the Audit Committee is responsible for approving the remuneration of the Director, Internal Audit.	
2	<p><u>Documented Approval of Work Programs and Supporting Working Papers</u></p> <p><u>Performance Standard 2240.A1:</u></p> <p><i>"Work programs must include the procedures for identifying, analyzing, evaluating, and documenting information during the engagement. The work program must be approved prior to its implementation, and any adjustments approved promptly."</i></p> <p><u>Performance Standard 2340:</u></p>	GC	The work program and associated working papers for each audit should be formally approved and documentation of approval should be retained.	<p>Action Plan:</p> <p>Internal Audit is already reviewing existing documentation to identify if there are other cases and correct if positive. Review will be completed by Q2 2023.</p>

#	Observation	Rating	Recommendation	Management Response
	<p><i>"Engagements must be properly supervised to ensure objectives are achieved, quality is assured, and staff is developed."</i></p> <p>MNP selected a sample audit completed in 2022 and reviewed all the related working papers. We did not find formal documentation related to the approval of the work program and the working papers for the audit. However, we do note that the Director did discuss the work program and working papers with the auditor, as evidenced by various meeting invitations and email discussions.</p>			<p>Accountable Party: Yianni Foufas, Senior Internal Auditor</p> <p>Due Date: Q2 2023</p>
3	<p><u>Document Retention and Disposal Policy</u></p> <p><u>Performance Standard 2330:</u></p> <p><i>"Internal auditors must document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions."</i></p> <p><i>2330.A2 – "The chief audit executive must develop retention requirements for engagement records, regardless of the medium in which each record is stored. These retention requirements must be consistent with the organization's guidelines and any pertinent regulatory or other requirements."</i></p> <p>We noted that while a Records Retention Schedule By-law exists for the City, there is no retention and disposal policy specifically for IA, as suggested by the Standards.</p>	GC	<p>A document retention policy for IA should be developed, which includes document retention periods and document disposal processes. The policy owner should be the Director, Internal Audit.</p>	<p>Action Plan: Internal Audit uses criteria based on the City's Record Retention policy. We will further detail and formalize those criteria and add a section into the Internal Audit Manual.</p> <p>Accountable Party: Luis Souza, Director, Internal Audit</p> <p>Due Date: Q2 2023</p>

Part 2: General Recommendations

MNP has also identified the following opportunities for improvement.

#	Observation	Recommendation	Management Response
4	<p><u>Engagement Overall Opinion</u></p> <p>As per the IPPF Standards, final communications of engagement results must include conclusions, recommendations and action plans, and where appropriate, an overall opinion should be provided.</p> <p>Upon review of the selected sample audit, we noted that conclusions, recommendations and action plans were included, however, an overall IA opinion was not provided.</p>	<p>In the spirit of continuous improvement and as leading practice, we recommend that IA consider providing an overall opinion in audit reports based on audit results.</p>	<p>Action Plan: Internal Audit will endeavor to apply overall Internal Audit opinions, where appropriate.</p> <p>Accountable Party: Luis Souza, Director, Internal Audit</p> <p>Due Date: Q1 2023</p>
5	<p><u>Code of Ethics Declaration</u></p> <p>The IIA requires Certified Internal Auditor ("CIA") designation holders to declare annually on their adherence to the IIA Code of Ethics. However, since this declaration requirement does not apply to non-certified IIA members, there would be a gap of annual independence or ethics declarations for City IA team members who are not certified IIA members.</p>	<p>IA could consider developing a process and/or an annual attestation form for all City IA team members to re-affirm their independence and conformance with the Code of Ethics and the IIA Standards.</p>	<p>Action Plan: Internal Audit will institute this through this year.</p> <p>Accountable Party: Luis Souza, Director, Internal Audit</p>

#	Observation	Recommendation	Management Response
			Due Date: Q1 2023
6	Internal Audit Department Succession Plan Succession planning is a process for identifying and developing internal people with have potential to fill key business leadership positions in the organization either to cover short term absences or longer term planned departures. Currently, there is no formal succession plan in place for IA.	IA could consider developing a formal succession plan to address the continuation of the department, and ensure that there are action plans in place for appropriate knowledge transfer management and skills building.	Action Plan: The City is developing a framework for succession planning, which will be rolled out late this year. Internal Audit will be part of this program. If further action is needed to ensure IA needs and purposes are met, IA will develop additional needed tools accordingly. Accountable Party: Luis Souza, Director, Internal Audit Due Date: Q1 2025

APPENDIX B: STANDARDS CONFORMANCE EVALUATION SUMMARY

#	IPPF Standard	Generally Conforms	Partially Conforms	Does not Conform	Ref.
OVERALL EVALUATION					
ATTRIBUTE STANDARDS					
1000	Purpose, Authority, and Responsibility	X			
1010	Recognition of the Definition of Internal Auditing	X			
1100	Independence and Objectivity	X			
1110	Organizational Independence	X			1
1111	Direct Interaction with the Board	X			
1120	Individual Objectivity	X			
1130	Impairments to Independence or Objectivity	X			
1200	Proficiency and Due Professional Care	X			
1210	Proficiency	X			
1220	Due Professional Care	X			
1230	Continuing Professional Development	X			
1300	Quality Assurance and Improvement Program	X			
1310	Requirements of the Quality Assurance and Improvement Program	X			
1311	Internal Assessments	X			

#	IPPF Standard	Generally Conforms	Partially Conforms	Does not Conform	Ref.
1312	External Assessments	X			
1320	Reporting on the Quality Assurance and Improvement Program	X			
1321	Use of "Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X			
1322	Disclosure of Non-conformance	X			
PERFORMANCE STANDARDS					
2000	Managing the Internal Audit Activity	X			
2010	Planning	X			
2020	Communication and Approval	X			
2030	Resource Management	X			
2040	Policies and Procedures	X			
2050	Coordination	X			
2060	Reporting to Senior Management and the Board	X			
2070	External Service Provider and Organizational Responsibility for Internal Auditing	X			
2100	Nature of Work	X			
2110	Governance	X			
2120	Risk Management	X			
2130	Control	X			

#	IPPF Standard	Generally Conforms	Partially Conforms	Does not Conform	Ref.
2200	Engagement Planning	X			
2201	Planning Considerations	X			
2210	Engagement Objectives	X			
2220	Engagement Scope	X			
2230	Engagement Resource Allocation	X			
2240	Engagement Work Program	X			2
2300	Performing the Engagement	X			
2310	Identifying Information	X			
2320	Analysis and Evaluation	X			
2330	Documenting Information	X			3
2340	Engagement Supervision	X			2
2400	Communicating Results	X			
2410	Criteria for Communicating	X			
2420	Quality of Communications	X			
2421	Errors and Omissions	X			
2430	Use of "Conducted in conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	X			
2431	Engagement Disclosure of Non-conformance	X			

#	IPPF Standard	Generally Conforms	Partially Conforms	Does not Conform	Ref.
2440	Disseminating Results	X			
2450	Overall Opinions	X			
2500	Monitoring Progress	X			
2600	Management's Acceptance of Risks	X			
IIA Code of Ethics		X			
Definition of Internal Auditing		X			

MNP

