

**1. OFFICE OF THE AUDITOR GENERAL (OAG) – QUALITY ASSURANCE
REVIEW - EXTERNAL ASSESSMENT**

**BUREAU DE LA VÉRIFICATRICE GÉNÉRALE (BVG) - ÉVALUATION
EXTERNE DE L'ASSURANCE DE LA QUALITÉ**

COMMITTEE RECOMMENDATIONS

That Council:

- 1. Approve the Office of the Auditor General's approach and timeline to conduct the Quality Assurance Review – External Assessment; and**
- 2. Approve the revised Terms of Reference for the Audit Committee as set out in Document 1.**

RECOMMANDATIONS DU COMITÉ

Que le Conseil :

- 1. approuve la méthode et le calendrier choisis par le Bureau de la vérificatrice générale pour effectuer l'évaluation externe de l'assurance de la qualité; et**
- 2. approuve la version révisée du mandat du Comité de la vérification tel qu'énoncé dans le document 1.**

DOCUMENTATION/DOCUMENTATION

- 1. Auditor General's report, dated April 16, 2021 (ACS2021-OAG-BVG-001)

Rapport de la Vérificatrice générale, daté le 16 avril 2021 (ACS2021-
OAG-BVG-001)**

**Report to
Rapport au:**

**Audit Committee
Comité de la vérification
27 April 2021 / 27 avril 2021**

**and Council
et au Conseil
12 May 2021 / 12 mai 2021**

**Submitted on April 16, 2021
Soumis le 16 avril 2021**

**Submitted by
Soumis par:
Nathalie Gougeon, Auditor General / Vérificatrice générale**

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Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE File Number: ACS2021-OAG-BVG-001

SUBJECT: Office of the Auditor General (OAG) – Quality Assurance Review - External Assessment

OBJET: Bureau de la vérificatrice générale (BVG) - Évaluation externe de l'assurance de la qualité

REPORT RECOMMENDATIONS

That the Audit Committee recommend Council:

- 1. Approve the Office of the Auditor General’s approach and timeline to conduct the Quality Assurance Review – External Assessment; and**
- 2. Approve the revised Terms of Reference for the Audit Committee as set out in Document 1.**

RECOMMANDATIONS DU RAPPORT

Que le Comité de la vérification recommande au Conseil :

- 1. d’approuver la méthode et le calendrier choisis par le Bureau de la vérificatrice générale pour effectuer l’évaluation externe de l’assurance de la qualité; et**
- 2. d’approuver la version révisée du mandat du Comité de la vérification tel qu’énoncé dans le document 1.**

BACKGROUND

As outlined in the Auditor General By-law No.2021-5, the Auditor General shall “*establish protocols and procedures that are necessary for the conduct of approved audits, consistent with the Institute of Internal Auditors’ (IIA) International Standards for the Professional Practice of Auditing (The Standards) and changes to these standards from time to time, except requirements applicable to consulting services*”. The Standards include principles and requirements for undertaking professional auditing and for evaluating audit performance. The Standards apply to individual auditors and audit functions, and heads of audit are accountable for the overall conformance with the Standards within their team.

The Standards require that the Auditor General develop and maintain a quality assurance and improvement program that covers all aspects of the audit activity. That program calls for both internal (self-assessment) and external assessments. In particular, external assessments are required to be conducted at least once every five years by a qualified independent assessor or assessment team from outside the

organization. The last external assessment was conducted in 2011 and reported to the Audit Committee in 2012.

The [Terms of Reference for the Audit Committee](#) responsibilities #10 and #15 state the following:

10. Consider and recommend to Council a process for a Quality Assessment Review of the Office of the Auditor General; and

15. Recommend the appointment of an external auditor to conduct an annual financial audit of the Officer of the Auditor General.

Furthermore, Motion No.46/2, approved on December 18, 2020 at a Special City Council meeting, directs the Chair of Audit Committee to work with the new Auditor General and the Chief Procurement Officer, to bring forward to the Audit Committee by April 2021 a proposed approach based on current best practices and timelines to undertake the next independent Quality Assurance Review of the Office of the Auditor General within the first year of the new Auditor General's Mandate.

DISCUSSION

QUALITY ASSURANCE REVIEW

Consultation and Vendor Selection

In February 2021, the Auditor General met with the Chief Procurement Office (CPO) and the Chair of the Audit Committee to discuss the best approach to undertake an External Quality Assurance Review of the Office of the Auditor General for the City of Ottawa. The following factors were considered:

- Estimated cost of the external assessment and alignment with the City of Ottawa's procurement policy and practices;
- Timing of the engagement;
- Vendor selection to eliminate any actual or perceived conflict of interest; and
- Reporting requirements.

Proposed Timeline

The following approach and timeline are being recommended to Audit Committee and Council as a result of consultation with the CPO and the Chair of the Audit Committee.

The project schedule is critical to the successful completion of any project. The OAG's anticipated timetable is as follows:

- February 2021, Consult with Chief Procurement Officer and Audit Committee Chair
- February 2021, Vendor Identification
- March 2021, Establish Scope of Assessment
- April 2021, Audit Committee Approval
- May 2021, Complete Self-Assessment
- May 2021, Sign Contract
- May-August 2021, Execution of Work
- October 2021, Draft Report and Auditor General Action Plan
- November 2021, Final Report to Audit Committee Chair
- November 2021, Final Report to be presented to Audit Committee along with the Auditor General's action plan to address any areas for improvement identified within the report.

Proposed Approach

The IIA Standards state that: *“External assessments may be accomplished through a full external assessment, or a self-assessment with independent external validation. The external assessor must conclude as to conformance with the Code of Ethics and the Standards; the external assessment may also include operational or strategic comments.”*

In an effort to reduce costs, the OAG has chosen to perform a self-assessment with independent external validation. The selected firm will review the results of the self-

assessment and perform additional procedures in order to issue a report to the Chair of the Audit Committee on the OAG's conformance with the IIA Standards. The Auditor General will work with the selected firm to coordinate communication with the Chair of the Audit Committee and report to the Audit Committee in Q4 2021.

ANNUAL FINANCIAL AUDIT OF THE OAG

As noted in the background section of this report, the Audit Committee Terms of Reference states that the Audit Committee's responsibilities include "*recommending the appointment of an external auditor to conduct an annual financial audit of the Office of the Auditor General.*"

Through review of past practice, it was noted that it appears that no separate annual financial audit of the OAG has been conducted since [November 28, 2007](#) when Council considered the report titled, "[Office of the Auditor General – Bill 130 – Revised Mandate](#)" and approved Recommendation 8 as follows:

8. Direct the inclusion of a separate audit report of the financial accounts of the Office of the Auditor General within the annual external audit of the City's financial statements.

It should be noted that the expenses of the Office of the Auditor General are included in the financial statements for the City of Ottawa which are subject to audit by an external accounting firm, Ernst & Young. Total expenses for the Office are budgeted at \$2.16M with the two largest expenditures being compensation at \$1.44M and professional services of \$664K.

Taking into consideration the size of the OAG's budget and the fact the expenditures of the OAG are subject to audit through the audit of the City's financial statements, the Auditor General is recommending the Audit Committee recommend to Council the removal of responsibility #15 noted in the current Terms of Reference of the Committee and as set out in Document 1.

In addition, the Office of the City Clerk is recommending additional amendments to the Audit Committee Terms of Reference in order to incorporate recent Council decisions and "housekeeping" matters, including the following:

- Council's approval on April 8, 2020, of the Statutory Officer Recruitment, Appointment and Contract Administration Policy and Procedures, which provide the process for recruitment, appointment and contract administration of the Auditor General;
- Council's approval on December 9, 2020, of amendments to the Statutory Officer Recruitment, Appointment and Contract Administration Policy and Procedures to provide for performance review and voluntary exit interview processes for the Auditor General; and
- Council's approval on December 9, 2020, of amendments to the Auditor General's By-law (currently By-law No. 2021-5), including the adoption of the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* (IIA Standards) as the City of Ottawa audit standard.

RURAL IMPLICATIONS

There are no rural implications associated with this report.

CONSULTATION

As this is considered an internal administrative matter, no public consultation was undertaken.

COMMENTS BY THE WARD COUNCILLOR(S)

This is a city-wide matter.

ADVISORY COMMITTEE(S) COMMENTS

This section does not apply, as this is a city-wide administrative report.

LEGAL IMPLICATIONS

There are no legal impediments to approving the recommendations contained in this report.

RISK MANAGEMENT IMPLICATIONS

There are no risk implications associated with this report.

FINANCIAL IMPLICATIONS

There are no financial implications associated with this report.

ACCESSIBILITY IMPACTS

There are no accessibility impacts associated with this report.

TERM OF COUNCIL PRIORITIES

This report supports the Term of Council Priority related to Governance, Planning and Decision Making.

SUPPORTING DOCUMENTATION

Document 1 Audit Committee – Revised Terms of Reference

DISPOSITION

The Office of the Auditor General will proceed according to Audit Committee's and Council's direction.

AUDIT COMMITTEE

Terms of Reference

MANDATE

The Audit Committee is responsible for overseeing all audit matters and receiving the annual and ad hoc reports from the City's Auditor General. The Committee is responsible for both the external audit process as well as matters relating to the Office of the Auditor General.

MEMBERSHIP

Membership of the Audit Committee shall consist of Members of City Council, as and approved by City Council. The Mayor shall be an *ex officio* member of the Committee.

GENERAL RESPONSIBILITIES

The Audit Committee shall:

1. Be responsible directly to Council for those applicable items emanating from:
 - a. the Auditor General's Office;
 - b. the Finance Services Department (on matters relating to the City's external audit process); and,
 - c. all other Departments, Services or Branches in the City of Ottawa having to do with matters pertaining to the responsibilities of the Committee.
2. Act as a liaison between the Office of the Auditor General and City Council to ensure regular and effective communication.

SPECIFIC RESPONSIBILITIES

Administration and General Policy

- ~~1. Recommend a selection committee to interview candidates for the position of City Auditor General.~~

1. Confirm and assure the independence of the City's Auditor General and the external auditor, including a review, if requested, of all additional audit, management consulting and other fees of the external auditor.
2. Have the authority to hear briefings on litigious matters related to items within the Committee's mandate and to give direction to the City Clerk on such matters where it is consistent with current Council direction or policy.
3. Review and recommend to Council revisions to the Audit Committee Terms of Reference, as required.
4. Recommend to Council proposed by-laws that are under the Committee's jurisdiction.

Audit Plan and Annual Report

5. Review and recommend to Council, the annual Audit Plan submitted by the Auditor General and any subsequent adjustments from the Office of the Auditor General.
6. Receive and resolve any audit recommendations where management does not agree as directed by Council.
7. Ensure that any policy recommendations coming out of an audit are referred to the appropriate Standing Committee.
8. Monitor the performance of the Office of the Auditor General in carrying out its approved Audit Plan and report directly to Council, as appropriate.
9. Consider and recommend to Council a process for a Quality Assessment Review of the Office of the Auditor General.
10. Review reports from the Office of the Auditor General on status and implementation of audit recommendations in accordance with the Audit Recommendation Implementation Update Process approved by Council. ~~for which management action has been directed.~~
11. Receive reports and additional background information on changed or disputed audit recommendations, and direct staff on next steps or make recommendations to Council on potential resolutions.
13. ~~Receive regular status reports on the City's implementation of accepted audit recommendations.~~

External Audit

12. Recommend the appointment of the external auditor and the audit fees to Council, as required.
- ~~15. Recommend the appointment of an external auditor to conduct an annual financial audit of the Office of the Auditor General.~~
13. Receive and review the Annual Financial Statements with management and the external auditors and ensure Council receives an information report.
14. Review any other matters brought to the Committee's attention by the external auditor and determine the appropriate disposition.
15. Review any changes in accounting principles and practices followed by the municipality.
16. Discuss with the external auditor the annual evaluation of the internal control systems and recommendations for improvements.

AUTHORITY, DECISION-MAKING AND REPORTING RELATIONSHIP

The Audit Committee shall meet at the call of its Chair in accordance with the notice provision as set out in the *Procedure By-law*. All Members of Council will receive meeting notices, agendas and meeting documentation for this Committee. All Members of Council, and/or their office staff, and the public are permitted to attend meetings of the Committee.

A decision by the Audit Committee shall be forwarded to Council for consideration.

The Chair and Vice-Chair of the Audit Committee shall have specific duties with respect to the Auditor General in accordance with the Council-approved Statutory Officer Recruitment, Appointment and Contract Administration Policy and Procedures.