



## REPORT

Report Date: June 17, 2020  
Contact: Tony Hui  
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VanRIMS No.: 08-2000-20  
Meeting Date: July 21, 2020  
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TO: Vancouver City Council  
FROM: Chief of Internal Audit  
SUBJECT: Amendment to the City's Audit Committee

### **RECOMMENDATION**

- A. THAT Council amend the composition of the City's Audit Committee to include two Councillors and two members of the public.
- B. THAT Council appoint two Councillors and two members of the public to the City's Audit Committee under the new structure.
- C. THAT the terms of the appointed members be set for four years, or in the case of Council members, the lesser of four years or until their term of office ends. Successive terms may be served totalling not more than eight consecutive years.

### **REPORT SUMMARY**

The City's Audit Committee is currently comprised of the City Manager, Deputy City Manager, Director of Finance, and Director of Legal Services. The Audit Committee approves the 3-year work plan for the Internal Audit Division and holds the Division accountable for completing that plan.

For Council's consideration, staff are recommending the addition of external Audit Committee members from both the public and Council as a measure to provide additional oversight for the City's internal audit activities and enhance the transparency and accountability of City operations.

**COUNCIL AUTHORITY/PREVIOUS DECISIONS**

There is no applicable Council Authority or previous decisions relevant to this report.

**CITY MANAGER'S/GENERAL MANAGER'S COMMENTS**

The City Manager recommends approval of the foregoing.

**REPORT*****Background/Context***

Internal Audit is an independent, objective assurance activity established to examine and evaluate the effectiveness and efficiency of City activities.

The ultimate goal of the City's Internal Audit Division is to promote effectiveness, efficiency, and accountability in City government by assisting management in establishing an internal control environment that mitigates risk, safeguards City assets, and supports the City in meeting its goals and objectives.

The Internal Audit Charter delegates responsibility for the City's internal audit activities to the Internal Audit Division, which is led by the Chief of Internal Audit who reports functionally to the City's Audit Committee. The Internal Audit Charter is attached as Appendix A.

The role of the Audit Committee is to review and approve the annual and 3-year audit plan and hold the Chief of Internal Audit accountable for successful completion of the audit plan and fulfilling all requirements set out in the City's Internal Audit Charter.

The City's Audit Committee is currently comprised of the City Manager, Deputy City Manager, Director of Finance, and the Director of Legal Services.

The outcome of audits conducted by the Internal Audit Division are posted on the City's website. In January 2020, Council received a comprehensive report on the work of the Internal Audit Division.

***Strategic Analysis***

Staff acknowledge Council's motion adopted October 23, 2019 approving the creation of an independent Auditor General office for the City of Vancouver. The recommendations set out above are not intended as a departure from that direction but, rather, to address an opportunity to broaden the governance of the Internal Audit Division pending the implementation of an operational Auditor General office.

The inclusion of external members to the City's Audit Committee would provide several benefits including the enhancement of skill sets and providing a breadth of expertise and perspective among committee members. An effective committee helps to ensure alignment between internal audit activities and City objectives, risks, and priorities.

The addition of both members of the public and members of Council would contribute to enhancing the effectiveness of the Audit Committee.

The inclusion of Council members to the audit committee would provide an opportunity for the direct involvement in oversight and provide a more direct linkage between the internal audit function and City Council. It also aligns with standards in the internal auditing profession.

### ***Implications/Related Issues/Risk***

#### ***Financial***

There are no financial implications.

#### ***Legal***

There are no material legal implications associated with implementation of the above Recommendations. Participation of members of the public will be addressed by way of Terms of Reference and Confidentiality and Conflict of Interest Agreements.

### ***CONCLUSION***

Staff suggest that the implementation of the recommendations outlined in this report would enhance the effectiveness of the City's Audit Committee oversight of internal audit activities in ensuring accountability, effectiveness and efficiency of City operations.

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Internal Audit Charter

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1. Introduction

The City Audit Committee has delegated internal auditing responsibility for the City of Vancouver to the Internal Audit Division of the City Manager's Office.

2. Definition

Internal audit is an independent, objective assurance activity established to examine and evaluate the effectiveness and efficiency of City activities.

3. Objective

The objective of Internal Audit is to assist the Audit Committee and all levels of management in the effective discharge of their management responsibilities by furnishing them with analyses, appraisals, recommendations, counsel and information concerning the activities under review and by promoting effective internal control at reasonable cost.

The ultimate goal of Internal Audit is to promote efficiency, effectiveness, and an accountable City government by assisting management in establishing a cost effective and efficient internal control environment that mitigates the City's financial risk exposure and safeguards the City's assets.

4. Responsibility and Organization

The primary responsibility for internal audit in the City of Vancouver is assigned to the Chief of Internal Audit, who shall report to the Audit Committee, comprised of the City Manager, the Deputy City Manager, the Director of Finance and the Director of Legal Services to help ensure independence and objectivity in the discharge of the Internal Audit responsibilities.

Administratively, the Chief of Internal Audit will report to the Deputy City Manager.

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**Internal Audit Charter**

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**5. Professional Standards**

Internal Audit shall conduct itself and perform its work in accordance with the Canadian Professional Accountants' Canadian Auditing Standards for the Professional Practice of Internal Auditing and their Code of Ethics.

**6. Authority**

Internal Audit has the authority, in all departments, boards, wholly-owned corporations and affiliates with right to audit, to:

- i. ascertain the extent of compliance with established policies, plans and procedures;
- ii. determine the reliability of management reports developed within the organization;
- iii. determine the operational effectiveness of business processes; and
- iv. have all necessary access to all activities, records, physical properties and personnel to furnish management and the Audit Committee with analyses, appraisals, recommendations, and pertinent comments concerning the activities and internal controls reviewed.

**7. Accountability**

The Chief of Internal Audit is accountable to the Audit Committee for successful completion of the audit plan and fulfilling all requirements set out in this Charter.

**8. Independence**

All audit activities shall remain free of undue influence by any element in the organization, including matters of audit scope, procedures, frequency, timing or report content to permit maintenance of an independent and objective attitude necessary in rendering audit reports.

Internal Audit shall have no direct operational responsibility or authority over any of the activities they review. Additionally, they shall not develop nor install systems or procedures, prepare records or engage in any other activity if doing so will impair their independence and objectivity.

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9. Scope

The scope of Internal Audit encompasses the examination and evaluation of the adequacy and effectiveness of City's internal control systems, as well as the effectiveness and efficiency of City's business processes. It includes:

- i. reviewing the systems and processes established to ensure compliance with those policies, plans, procedures, laws and regulations that may have a significant impact on operations and reporting on whether the organization is in compliance;
- ii. reviewing the means of safeguarding assets and, as appropriate, verifying the existence of such assets;
- iii. reviewing the reliability and integrity of financial and operating information and the means used to identify measure, classify and report such information;
- iv. reviewing specific operations at the request of the Audit Committee or management, as appropriate;
- v. ascertaining that the operating or program objectives and goals set by management are being carried out as planned;
- vi. appraising the economy, effectiveness and efficiency of business processes with which resources are employed; and
- vii. reviewing systems under development to ensure that all significant risks are identified and that appropriate controls are built into the systems to adequately manage those risks.

The Chief of Internal Audit shall provide advisory services to city departments on policies, procedures and internal control issues.

10. Audit Planning

The Chief of Internal Audit is responsible for the development and execution of the City's audit plans. Based on consultations with management and results of risk assessment, the Chief of Internal Audit will assess and prioritize risks based on City-wide exposure and develop the City's Annual and 3-year audit plans. Key objectives and individual audits are planned based on available resources.

Annually, the audit plan for the upcoming year and the updated 3-year audit plan shall be submitted to the Audit Committee for review and approval before December 31 of each calendar year. The approved annual and 3-year plans shall be presented to the Corporate Management Team for information.

Subsequent to the approval process, any significant deviation from the formally approved plan will be communicated to the Audit Committee.

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11. Internal Audit Management Team Semi-annual Meeting

Semi-annually, the Chief of Internal Audit shall meet with the Audit Committee to discuss internal audit activities and results. To constitute a quorum, the City Manager plus one other member of the Audit Committee must be present.

The Chief Risk Officer will attend semi-annual meetings as a staff member.

12. Management Responsibilities

Managers at all levels within the City are responsible for developing and maintaining effective internal control systems supporting their business processes. Because internal auditors have no direct responsibility for or authority over any of the activities they review, an internal audit, review or appraisal does not in any way relieve City management of the responsibilities assigned to them.

There shall be no concealment of information from, or presentation of intentionally misleading information to the Internal Audit staff. All employees are required to assist Internal Audit in fulfilling its responsibility.

At the conclusion of an audit, management will be required to provide responses to the audit recommendations within an eight-week period from the draft report issue date to ensure internal control weaknesses are addressed on a timely basis.

13. External Audit

Internal Audit will coordinate its activities with the City's external auditors to maximize the efficiency and effectiveness of the overall audit process.

Internal Audit will provide assistance to the external auditors in completing the annual audit of the City's financial statements as directed by the Audit Committee.

14. Reporting

On completion of each review, the Chief of Internal Audit will issue a formal written report to:

- i. the Audit Committee;
- ii. the General Manager and the Manager of the business unit being audited; and
- iii. the External Auditor.

In addition, the Chief of Internal Audit will be responsible for conducting follow-up review on actions taken by management with respect to audit findings and recommendations. Any major deviations from the previously agreed to actions will be reported to the Audit Committee semi-annually or as requested.

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15. Record Retention

- i. All audit reports are to be retained on file for a period of 7 years subsequent to the report date.
- ii. All audit files are to be retained for a period of 3 years.
- iii. Audit records exceeding the retention period will be disposed of confidentially.

The responsibility, authority, scope and reporting relationships authorized in the charter are hereby approved by the Audit Committee on September 15, 2017.

  
Sadhu Johnston  
City Manager

  
Paul Mochrie  
Deputy City Manager

  
Patrice Impey  
Director of Finance

  
Francie Connell  
Director of Legal Services