



INTERNAL AUDIT 2025 BUDGET REQUEST

Supporting the Audit Committee's
Oversight Role | Achieving and Maintaining
Conformance with IIA Standards



Date: October 7, 2024

Presenter: Claire Mu, Director, Internal Audit

AGENDA



1

Purpose: Review + Approve Budget Request

2

The Story behind the Numbers

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2025 Budget Request Overview

- Baseline Budget
- Cybersecurity Audit Funding

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Incremental Budget Request Details

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Budget Summary

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Action Items

PURPOSE

Purpose: Present the Internal Audit's 2025 Budget Request to the Audit Committee for review and approval.

Audit Committee Authority: The Audit Committee must approve Internal Audit's budget to ensure audit independence and resource adequacy, as required by the Audit Charter and IIA Standards.

Audit Committee Terms of Reference (By-law 108-203)

*"To establish, maintain, and assure that the City's Internal Audit has sufficient authority to fulfill its duties, **the Audit Committee will:***

- ***Approve Internal Audit's budget and resource plan.***"

Standard 6.3 Board and Senior Management Support

*The Board will: "Demonstrate support by: **Approving** the internal audit charter, internal audit plan, **budget, and resource plan.**"*

Support of Audit Committee and CAO's Office were necessary to secure resources and implement changes



2020-2022

Operated below capacity due to historical staffing issues

- Chronic understaffing and high turnovers
- Operating at times 42% below capacity
- Below-market salaries
- Challenges to attract and retain skilled professionals



2023

Conducted comprehensive audit staff role reviews

- Competitive salaries were introduced
- Vacancies filled
- Turnover reduced

Implemented structural changes

- Streamlined audit report approval process
- Enacted Audit Charter into City By-law
- Revised fraud governance structure
- Reinforced Audit Independence



2024

Strengthened audit team and improved audit effectiveness

- A more effective and resilient audit team in place, better meeting the City's needs
- Significantly improved alignment with Global Internal Audit Standards

Three major gaps; no resources to:

- Validate MAPs
- Conduct self-assessment against standards
- Insufficient fraud risk assessment



2025

Effective Internal Audit Function

- Effective and resilient audit team in place, fully meeting the Internal Audit mandates.
- Full Conformance to Global Internal Audit Standards.



2025 BUDGET REQUEST OVERVIEW



2024 Budget
\$1,965,211



Incremental Requests
\$255,595

- Address funding gaps
- Fulfill audit mandates
- Achieve and maintain IIA Standards compliance



2025 Baseline Budget Request
\$2,220,806



Cybersecurity Audit Funding
\$90,000

- Establish cybersecurity audit funding to address a key corporate risk



Total Request
\$2,310,806

- Aligns with IIA Standards and the City's strategic priorities, particularly in cybersecurity, risk management

Baseline Budget Request:
\$2,220,806, reflecting a \$255K increase over the 2024 Budget.

This baseline is the minimum required to address funding gaps, meet Internal Audit mandates, and maintain conformance with IIA Standards.

2025 BASELINE BUDGET INCREMENTAL REQUEST (\$255K)

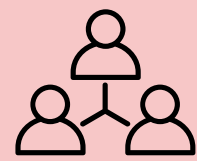
- 1. Total Labour Cost (\$190K)**
- 2. Total other expenditures (\$65K)**

LABOUR COSTS INCREMENTAL (\$190K)



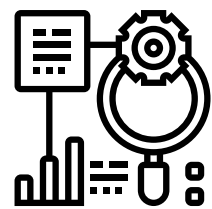
Compensation Adjustments
(15K)

- Compensation adjustments to reflect actual costs and forecasted actuals.



Lead Internal Auditor
165K (\$123K + benefit/WSIB and programming costs)

1. One full-time staff member to: 1. Validate the implementation of management action plans (0.4 FTE)
2. Conduct ongoing monitoring and self-assessments to ensure compliance with IIA Standards (0.4 FTE)
3. Enhance the assessment of fraud risk across the City (0.2 FTE)



Audit Coordinator
24K

- One part-time student to assist in updating the audit manual, a key requirement of the Standards, in preparation for the upcoming IIA External Quality Assessment by IIA.



Research Support Officer
16K

- Two summer students will help with the extra workload in preparation for the upcoming IIA External Quality Assessment.

Total
190K

OTHER EXPENDITURES INCREMENTAL (\$65K)



Operating Expenditure Adjustments
12K

- Operating expenditure adjustments to align with actual and projected costs, covering areas such as staff development, association membership, mileage, and other related expenses.



Internal Audit Licensing
14K

- Additional licenses for audit software tools (ACL and Pentana) are needed to address the current shortage caused by a full team complement. These tools are essential for conducting effective audit engagements.



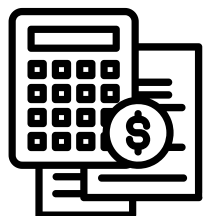
Professional and Consulting Services
39K

- Last year's budget cut created a discrepancy between actual expenses and the allocated budget. This request restores funding for Professional & Consulting Services, ensuring compliance with IIA Standards and providing adequate resources for critical upcoming core audit projects. Further details are provided after the table.



Total Discretionary
65K

- Two summer students will help with the extra workload in preparation for the upcoming IIA External Quality Assessment.



Grand Total
255K

- Total budget increase to achieve and maintain conformance with IIA Standards

AN ADDITIONAL LEAD INTERNAL AUDITOR (\$165K)

1

Key Focus of this Budget

Request for an additional Lead Internal Auditor, to build capacity for three unmet mandates:

1. *Validating the implementation status of management action plans. (IIA Standard 15.2)* (0.4FTE)
2. *Implementing a robust Quality Assurance and Improvement Program incorporating on-going monitoring and self-assessment of Internal Audit activities against the IIA Standards and regularly reporting the results to Audit Committee. (IIA Standard 12.1)* (0.4 FTE)
3. *Improving the assessment of fraud risk facing the City and incorporating fraud risk assessment into individual audit engagements. (IIA Standard 4.2)* (0.2 FTE)

2

Risk

These three areas have been highlighted as the main risks of non-conformance to the IIA Standards. Additional resources are required to close the gaps to the IIA Standards. -- IIA Quality Assessor

3

Impact

Non-conformance with Standards has a major impact on the audit effectiveness and carries with it a negative reputational risk.

AN ADDITIONAL LEAD INTERNAL AUDITOR (\$165K)

Standard 15.2 Confirming the Implementation of Recommendations or Action Plans

*“This standard requires Internal Auditors to follow up on the implementation of recommendations using a risk-based approach and to update the status of management actions. Internal Auditors **must verify that management has implemented their recommendations....**”*

Standard 12.1 Internal Quality Assessment

*“The chief audit executive **must** develop and **conduct internal assessments** ... that includes: **ongoing monitoring** of the internal audit function’s conformance with the Standards and progress toward performance objectives...**and periodic self-assessments** ... of internal audit practices to evaluate conformance with the Standards....”*

Standard 4.2 Due Professional Care

“Internal auditors **must exercise due professional care by assessing** the nature, circumstances, and requirements of the services to be provided, including:

•**Probability of** significant errors, **fraud**, noncompliance, and other risks that might affect objectives, operations, or resources.”

Examples of Evidence of Conformance includes:

“(Audit Planning) Notes showing assessment of risks including errors, noncompliance, and **fraud.**”

REINSTATE PROFESSIONAL CONSULTING SERVICES (\$39K)

1

Why is Professional Consulting Service important for the Internal Audit function?

Access to Expertise: A consulting budget allows the CAE to hire external specialists for complex audits, such as IT and cybersecurity, ensuring effective risk evaluation.

Compliance with Standards: Consulting services help the CAE maintain proficiency and meet IIA Standards, especially for specialized audits or peak workloads.

Supporting Independence: A dedicated budget allows the CAE to independently secure external assistance, reinforcing audit independence and objectivity.

Quality Assurance: Consultants support periodic quality assessments, ensuring continuous improvement and alignment with global best practices.

Maintaining this budget enables the CAE to remain flexible, compliant with IIA Standards, and responsive to emerging risks.

Standard 3.1 Competency

*“Requirements: Internal auditors must possess or **obtain the competencies** to perform their responsibilities successfully.”*

*“To ensure the internal audit function collectively possesses the competencies to perform the internal audit services, the chief audit executive should **consider contracting with an independent, external service provider** when the internal audit function collectively does not possess the competencies to perform requested services.”*

Standard 9.5 Coordination and Reliance

*“The chief audit executive may choose to rely on the work of other providers for various reasons, such as to **assess specialty areas outside the internal audit function’s expertise, ... and to enhance risk coverage beyond the resources of the internal audit function.**”*

REINSTATE PROFESSIONAL CONSULTING SERVICES (\$39K)

2

History and Budget Cut

- a. On average, the Internal Audit has been taking on two or three such projects per year.
- b. Consulting fees are influenced by market conditions, which are beyond our control.
- c. In the four years prior to 2023, there was no budget growth despite significant price increase for professional services.
- d. In 2023, Internal Audit raised its Professional Services budget from \$145,650 to \$210,650 to catch up with market inflation.
- e. However, in the 2024 budget cycle, the Internal Audit's consulting budget was cut by \$39,000 to \$171,715. Our 2023 actual was \$212,000.

3

2025 Audit Projects

1. Ethics Hotline Intake Service - committed
2. External Quality Review - committed
3. City-wide risk assessment to refresh audit universe and provide basis for 5-yr audit work plan
4. Another Cyber audit project

4

Impact

Without reinstating the Professional & Consulting budget line, Internal Audit will **lack the necessary funding to support critical audit projects** essential to its effectiveness.

For example, there will be insufficient resources to update the City's audit universe and develop a comprehensive 5-year audit work plan based on a citywide risk assessment.

The audit universe, last updated in 2021, is now outdated, which hampers the Audit Committee's ability to perform its oversight responsibilities effectively.

TEMPORARY STAFFING (\$40K)

1 Background

- Jan 9, 2024:
 - New and more stringent Global Audit Standards released, replacing the 2017 Standards
- Jan 9, 2025: New Standards take effect
- Aug 2020: Last External Quality Assessment (EQA) identified many areas of non-conformance.
- Aug 2025: next EQA
 - Will be assessed against the 2024 Standards.
 - Format of EAQ: Self-Assessment with Independent Validation (SAIV) by the IIA.
 - Hundreds of self-assessment documents must be created for 15 audit principles and 52 standards, significantly increasing Internal Audit's workload.
 - Without a dedicated staff for audit quality, IA reassigned an audit manager to coordinate this year's gap assessment and lead conformance efforts in preparation for the 2025 SAIV.

2

Student Support

Due to increased workload in the conformance period:

- One part-time student will assist with drafting the audit manual in preparation for the upcoming IIA External Quality Assessment (\$24K).
- Two summer students will assist with the self-assessment forms in preparation for the EQA (\$16K).

3

Impact

Having these students on board will prevent Internal Audit from having to further reduce the annual audit work plan and will **help maintain audit coverage in 2025 during this critical conformance period.**

OTHER INCREMENTAL ITEMS (NET \$11K)

\$12K - Operating Expenditure Adjustments

This request addresses the need to align with actual and projected costs, including staff development, association memberships, mileage, and other related expenses. The increase primarily reflects rising costs and the full staffing complement.

\$14K - Additional Software Licenses

Due to the current shortage caused by a fully staffed audit team, additional licenses for essential audit tools such as ACL and Pentana are required. These tools are critical for conducting effective and efficient audit engagements.

(\$15K) - Compensation Adjustments

These increases are partially offset by a decrease in compensation to reflect actual costs.

Impact

These budget adjustments support ongoing professional development to meet Continuing Professional Education requirements for all audit staff, and they contribute to the modernization of the internal audit function. **Both are essential for maintaining compliance with IIA Standards.**

\$90K TO ESTABLISH CYBERSECURITY AUDIT FUNDING



**Yearly Cybersecurity
Audit Funding**
90K

- Cybersecurity is flagged as a corporate risk. Funding is to ensure independent tests can be conducted yearly.



The request aligns with the City's strategic priorities and is also in response to recent cybersecurity events in the neighbouring municipalities.

RECAP INCREMENTAL BUDGET ITEMS

Baseline Incremental Request \$255K

Cyber Audit Funding 90K



1 Lead Internal Auditor

Temporary Staffing

Reinstate Professional & Consulting Budget

Other Expenditure Adjustments

Establish Cyber Audit Funding

\$165K

\$16K + \$24K

\$39k

\$11K = \$12K + \$14K - \$15K

\$90K

To add capacity to carry out three unmet mandates

Temporary staffing to assist with increased workload in preparation for the upcoming IIA EQA

Cyber Audit funding ensures Internal Audit remains flexible, compliant with IIA Standards, and responsive to emerging risks, supporting key 2025 projects like the External Quality Assessment (EQA) and a City-wide risk assessment, which will shape the next five-year audit work plan.

Support mandatory training and acquire licenses for a full complement, as required by the Standards.

Partially offset by a reduction of \$15k in labour costs.

To support Audit Committee's oversight role.

Cybersecurity is a key corporate risk.

BUDGET SUMMARY

2024 Budget Request of **\$1,965,211**

\$255K INCREMENTAL REQUESTS:

- **\$165K** for a Lead Internal Auditor
- **\$39K** to reinstate Professional & Consulting Services
- **\$40K** for temporary staffing to prepare for External Quality Assessment
- **\$26K** to cover rising operating costs
- **(\$15K)** in labour costs reduction

BASELINE BUDGET REQUEST OF **\$2,220,806**

- \$90K to establish recurring cyber audit funding

TOTAL BUDGET REQUEST OF **\$2,310,806**

Key Focus

An Additional Lead Internal Auditor to add capacity to:

- Validate management action plans
- Conduct on-going monitoring and self-assessment against IIA Standards
- Improve fraud risk assessment and incorporate fraud risk assessment in audit engagements

\$39K to reinstate Professional Consulting Budget

Budget request is endorsed by the CAO's Office and pending Budget Committee approval.

Actions Required of Audit Committee



That the proposed budget in the report be received.



That the proposed 2025 Internal Audit Budget as outlined in the report and Appendix 1 be approved and forwarded to the Budget Committee/Mayor's Budget for consideration.

Approval is crucial to close resource gaps to achieve and maintain IIA Audit Standards.