



Report
Staff Report
 The Corporation of the City of Brampton
 10/7/2024

Date: 2024-09-17

Subject: **Overview of IIA's Gap Assessment and Approval of Action Plan**

Contact: Claire Fang Mu, Director, Internal Audit

Report number: CAO's Office-2024-790

RECOMMENDATIONS:

1. That the report titled: **Overview of IIA's Gap Assessment and Approval of Action Plan** to the Audit Committee Meeting of October 7, 2024, be received; and
2. That the action plan contained in **Appendix 3 – Gap Assessment Final Report including Management Action Plan** be approved.

OVERVIEW:

- **Background and Updates:** The City of Brampton's Audit Charter requires all internal activities to undergo an external quality assessment (EQA) every five years; the next EQA is due in 2025 based on the newly released 2024 Global Internal Audit Standards.
- **Gap Assessment Initiative:** Internal Audit initiated a gap assessment to evaluate the City's audit activities against the new 2024 IIA Standards. This assessment underscores Internal Audit's commitment to continuous improvement.
- **Gap Assessment Overview:** The Gap Assessment was conducted from July 30 to August 8, 2024, with findings reported in September. The Quality Assessor found that Internal Audit is on a positive trajectory but noted the need for more resources to achieve full conformance with the new standards.
- **Response to Gap Assessment:** Internal Audit has requested an additional Lead Internal Auditor in the 2025 budget to enhance capacity for three areas: validating management action plans, developing a quality assurance and improvement program, and enhancing fraud risk assessment capabilities. This staffing request follows similar requests made in the 2023 and 2024 budget proposals.

- **Appendices and Additional Details:**
 - **Appendix 1:** Background information on the gap assessment and Director’s remarks.
 - **Appendix 2:** Presentation slides providing an overview of the Gap Assessment Results.
 - **Appendix 3:** Gap Assessment Final Report with Internal Audit’s response to recommendations.
- **Action Required:** Audit Committee is required to review and approve the action plan in **Appendix 3** to ensure compliance with the new standards as mandated by Standard 8.4 External Quality Assessment from the Standards.

BACKGROUND:

On January 9, 2024, the Institute of Internal Auditors (IIA) released updated Global Internal Audit Standards (Standards). These standards are foundational to the global professional practice of internal auditing, providing 15 guiding principles and 52 specific standards that support effective internal auditing and offer a framework for a broad spectrum of value-added internal audit services. The updated 2024 Global Internal Audit Standards are set to become effective on January 9, 2025.

Per the IIA Standards, all internal audit activities must be subject to an external quality assessment (EQA), at least once every five years. The City of Brampton's Audit Charter aligns with this directive. With the last EQA conducted in August 2020, Internal Audit is scheduled for its next assessment in 2025, which will be based on these new standards.

In preparation for this assessment and to ensure alignment with the new standards, Internal Audit proactively initiated a gap assessment through IIA, evaluating the City’s audit activities against the 2024 IIA Standards. This demonstrates Internal Audit’s commitment to continuous improvement and adherence to the forthcoming standards.

The IIA Standards are categorized into five domains, starting with Domain I, which outlines the Purpose Statement of Internal Audit. The recent gap assessment focused on the remaining four domains and addresses any disparities with the current practices, which are still based on the outdated 2017 Standards. The domains reviewed included:

- Domain II – Ethics and Professionalism
- Domain III – Governing the Internal Audit Function
- Domain IV – Managing the Internal Audit Function
- Domain V – Performing Internal Audit Services

Further information on the compliance project and Internal Audit’s efforts to secure specialized services can be found in the June 10, 2024, Audit Committee report titled “IIA Standards Work and External Quality Assessment.”

CURRENT SITUATION:

Gap Assessment Overview:

The Gap Assessment was conducted from July 30 to August 8 with the final report delivered in September 2024. This comprehensive review included: an analysis of documents prepared by Internal Audit at the request of the independent assessor; examination of a selection of completed audit engagements and their reports; scrutiny of the Internal Audit Manual and specific policies and procedures; interviews with Internal Audit members and key stakeholders; and the use of evaluation tools from the IIA Quality Assessment Manual that align with the Standards.

The Quality Assessor concluded that Internal Audit is successfully moving towards enhancing its effectiveness and aligning with the new standards. However, they noted that achieving full conformance would require additional resources to address several key risks.

In response, Internal Audit has included a request for an additional Lead Internal Auditor in its 2025 operating budget. This position is aimed at providing capacity to the Internal Audit team to manage three critical mandates:

1. Validate the implementation status of management action plans
2. Develop and maintain an internal audit quality assurance and improvement program, conducting on-going monitoring and self-assessment against the IIA Standards
3. Enhance the assessment of fraud risk facing the City and integrate fraud risk assessments in each audit engagement.

This request is not unprecedented, as similar positions were sought in the 2023 and 2024 budget proposals.

Further details about the rationale and history behind this staffing request are detailed in the staff report summarizing Internal Audit's 2025 Budget Request, which will also be presented at the Audit Committee meeting on October 7.

Appendix 1 contains the background information on the gap assessment, accompanied by the Director's introductory remarks.

Appendix 2 includes the IIA's presentation slides, which provide an overview of the Gap Assessment results, highlight effective practices, and outline risks to conformance, to be presented by the IIA quality assessor.

Appendix 3 features the IIA's Gap Assessment Final Report, with pages 8-28 encompassing Internal Audit's Management Response to the recommendations.

Action Required from the Audit Committee:

Standard 8.4 External Quality Assessment from the Standards mandates that the Board must “*review and approve the chief audit executive’s action plans to address identified deficiencies and opportunities for improvement.*”

It is recommended that Audit Committee review and approve the action plan detailed in **Appendix 3**, titled “*IIA’s Gap Assessment Final Report including Management Action Plan,*” to ensure compliance with the new Standards.

CORPORATE IMPLICATIONS:

Financial Implications:

N/A

STRATEGIC FOCUS AREA:

Government and Leadership: Focusing on service excellence with equity, innovation, efficiency, effectiveness, accountability and transparency.

CONCLUSION:

The IIA has concluded its Gap Assessment of the City’s internal audit function against the new 2024 Global Internal Audit Standards. The findings were generally favorable, recognizing the internal audit’s dedication to improving the function’s quality and effectiveness. However, it also identified several critical risk areas that will necessitate additional resources. The internal audit team has examined the assessment outcomes and formulated an action plan, complete with timelines to mitigate the identified risks. This plan is now ready for the Audit Committee’s review and approval to ensure compliance with the new 2024 Standards.

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Attachments:

- Appendix 1 – Introductory Slides from the Director of Internal Audit
- Appendix 2 – Presentation Slides from IIA Detailing Gap Assessment Results
- Appendix 3 – IIA's Gap Assessment Final Report Including Management Action Plan