MISSISSAUGA

AGENDA

AUDIT COMMITTEE

THE CORPORATION OF THE CITY OF MISSISSAUGA

MONDAY, NOVEMBER 19, 2012 – 9:00 AM

COUNCIL CHAMBER, 2ND FLOOR, CIVIC CENTRE,
300 CITY CENTRE DRIVE, MISSISSAUGA, ONTARIO L5B 3C1
http://www.mississauga.ca

Members

Councillor Jim Tovey, Ward 1
Councillor Pat Mullin, Ward 2 (Chair)
Councillor Chris Fonseca, Ward 3
Councillor Ron Starr, Ward 6
Mayor Hazel McCallion, (*ex officio*)

Contact: Carmela Radice, Legislative Coordinator, Office of the City Clerk
905-615-3200 ext. 5426 Fax: 905-615-4181
carmela.radice@mississauga.ca

CALL TO ORDER

DECLARATIONS OF (DIRECT OR INDIRECT) PECUNIARY INTEREST

MINUTES OF PREVIOUS MEETING

(a)   Draft Minutes of the September 24, 2012 Audit Committee meeting.

        Recommend Adoption

APPROVAL OF THE AGENDA

DEPUTATIONS

MATTERS TO BE CONSIDERED

1.   Report dated November 1, 2012 from the Commissioner of Corporate Services
        and Treasurer re: **2012 Audit Planning Report.**

        Recommendation

        1.   That the report dated November 1, 2012 from the Commissioner of
                Corporate Services & Treasurer with respect to the 2012 Audit Planning
                Report, be received for information.
        2.   That the Audit Committee approve the Audit Planning Report (Appendix 1)
                for the City's 2012 statutory audit.

        Recommend Approval

2.   Report dated November 5, 2012 from the City Manager & Chief Administrative
        Officer re: **Status of Outstanding Audit Recommendations.**

        Recommendation

        That the report dated November 5, 2012 from the City Manager & Chief
        Administrative Officer regarding the status of outstanding audit
        recommendations, be received for information.

        Recommend Receipt

3.   Report dated November 6, 2012 from the Director of Internal Audit re: **Status of the Consulting Engagement on Information Security – Identity and Access Management for the Corporate Services Department, Information Technology Division.**

Recommendation

That the report dated November 6, 2012 from the Director of Internal Audit regarding Status of the Consulting Engagement on Information Security – Identity and Access Management for the Corporate Services Department, Information Technology Division, be received for information.

Recommend Receipt

4.   Report dated November 7, 2012 from the Director of Internal Audit re: **Internal Audit Quality Assurance Review.**

Recommendation

That the report dated November 7, 2012 from the Director of Internal Audit regarding Internal Audit Quality Assurance Review, be received for information.

Recommend Receipt

5.   Memorandum dated November 12, 2012, from Carmela Radice, Legislative Coordinator re: **Appointment of Chair for Audit Committee Commencing December 1, 2012 until November 30, 2013.**

CLOSED SESSION

INQUIRIES

ADJOURNMENT

MISSISSAUGA

Minutes

AUDIT COMMITTEE

THE CORPORATION OF THE CITY OF MISSISSAUGA

WEDNESDAY, SEPTEMBER 24, 2012 – 9:04 a.m.

COUNCIL CHAMBERS, 2ND FLOOR, CIVIC CENTRE,
300 CITY CENTRE DRIVE, MISSISSAUGA, ONTARIO L5B 3C1
http://www.mississauga.ca

Members Present
Councillor Jim Tovey, Ward 1
Councillor Pat Mullin, Ward 2 **(Chair)**
Councillor Chris Fonseca, Ward 3
Councillor Ron Starr, Ward 6
Mayor Hazel McCallion, (ex officio) (arrived at 9:24 a.m.)

Staff Present
Brenda R. Breault, Commissioner, Corporate Services and Treasurer
Paul Mitcham, Commissioner, Community Services
Martin Powell, Commissioner, Transportation and Works
Sally Eng, Director, Internal Audit
Patricia Elliot-Spencer, Director of Finance
Ana Chan, Manager, KPMG, external auditors
Diana Rusnov, Manager of Legislative Service and Deputy Clerk
Carmela Radice, Legislative Coordinator, Office of the City Clerk

CALL TO ORDER 9:04 a.m. (Chair Mullin)

DECLARATIONS OF (DIRECT OR INDIRECT) PECUNIARY INTEREST - **Nil**

MINUTES OF PREVIOUS MEETING

(a)   Draft Minutes of the May 7, 2012, Audit Committee meeting.

Recommendation

AC-0012-2012
That the audit committee minutes of May 7, 2012 be approved as presented.

Approved (R. Starr)

APPROVAL OF THE AGENDA

That the agenda be approved as presented.

Motion: Moved by: J. Tovey

Carried

DEPUTATIONS - **Nil**

MATTERS TO BE CONSIDERED

1.   Report dated September 24, 2012, from the Director of Internal Audit re: **Final Audit Reports – Transportation & Works Department, Transit Division – Mississauga Transit Tickets and Passes Audit; and Low Value Acquisitions (LVA) Cheque Requisitions Transaction Review.**

Sally Eng, Director of Internal Audit provided an overview of the Low Value Acquisitions (LVA) Cheque Requisitions Transaction Review. Keith Kamino, Senior Internal Auditor provided an overview of the Mississauga Transit Tickets and Passes Audit. He indicated that internal audit had made three recommendations to the Transit Division and further indicated that one of the three recommendations had been implemented and that the Transit Division was working on implementing the other two recommendations. It was noted that implementation of the final two recommendations would be completed by the end of September. Councillor Starr inquired as to whether or not the reports received from Metrolinx had been audited. Ms. Eng indicated that the transactions of Presto are the responsibility of Metrolinx and the City of Mississauga has no means for independent verification and relies on the reports received.

Geoff Marinoff, Director of Transit and a member of the Executive Committee for the Service Providers of Presto indicated that the audit responsibilities reside with Mextrolinx and every year the audit plan for the Presto Program is brought to the Executive Committee and the reports are shared with the City of Mississauga's internal audit staff. He also indicated that Metrolinx brings in external auditors to check the systems. Martin Powell, Commissioner of Transportation and Works indicated that Metrolinx is a provincial agency that has their own standards and controls. Councillor Tovey sought information regarding a draft agreement that City of Mississauga staff had requested from GO Transit. He further sought information on administrative charges. Mr. Kamino indicated that GO Transit had other priorities and the draft agreement was not completed. Janice Baker, City Manager and CAO indicated that the City of Mississauga is a customer of Metrolinx and the City relied on the Metrolinx to manage the system properly. She also indicated that Metrolinx should ensure that their back end systems are in their customer's best interest and the City of Mississauga does not have the ability to monitor those transactions. Mr. Marinoff indicated that the Presto system had a two percent administrative charge for the central administration which was divided between the central administration and and the City of Mississauga.

Recommendation

AC-0013-2012
That the report dated September 14, 2012 from the Director, Internal Audit with respect to the final audit reports for the Transportation & Works Department, Transit Division – Mississauga Transit Tickets and Passes Audit; and the Low Value Acquisitions (LVA) Cheque Requisitions Transaction Review, be received for information.

Received (C. Fonseca)

2. Report dated September 12, 2012, from the Director of Internal Audit re: **2012 Internal Audit Work Plan Status Report.**

    Sally Eng, Director of Internal Audit provided an overview of the 2012 Internal Audit Work Plan Status Report. Councillor Fonseca enquired about an update on the item concerning identity and access management. Ms. Eng indicated that a status report on this issue would be brought forward at the November Audit Committee meeting.

Recommendation

AC-0014-2012
That the report dated September 12, 2012, from the Director of Internal Audit re: 2012 Internal Audit Work Plan Status Report, be received for information.

Received (R. Starr)

3. Report dated September 12, 2012, from the Commissioner of Corporate Services
    and Treasurer re: **Revised Salary Administration and Job Evaluation Policies.**

    Brenda R. Breault, Commissioner, Corporate Services and Treasurer provided an
    overview of the revised salary administration and job evaluation policies which
    included the following policies; the designation of department heads, the authority
    to approve specific compensation, the establishment of a minimum supervisory
    salary differential, clearly defined contract and permanent employee pay
    adjustment provisions, amended performance management administrative
    practices related to disability and streamlining the job evaluation administration
    process, ensuring the regular maintenance and review of all City of Mississauga
    jobs, the improvement of job classification controls. Mayor McCallion and
    Councillors Mullin, Tovey and Starr inquired about the additional costs, authority to
    approve specific compensation decisions and functional guidance. Ms. Breault
    indicated that the additional costs would be built into the City of Mississauga's
    budget. Janice Baker, City Manager and CAO indicated that the Commissioners
    would have the authority to approve specific compensation decisions. Sharon
    Willock, Director of Human Resources provided clarification regarding the definition
    of functional guidance.

    Recommendation

    AC-0015-2012
    That the revised Salary Administration and Job Administration Policy #01-04-02 and
    Job Evaluation Policy #01-01-01 attached as Appendix 1 and 3 to the Corporate Report
    dated September 12, 2012, from the Commissioner of Corporate Services and
    Treasurer, be approved.

    Approved (Mayor McCallion)

    CLOSED SESSION

    Audit Committee moved into Closed Session at 9:51 a.m. Audit Committee moved out
    of Closed Session at 10:15 a.m. The following recommendation was passed pursuant
    to the Closed Session:

    (i)   The security of the property of the municipality or local board re:
            **Mississauga Spectator Arena Complex (Hershey Centre) Update May
            2012 Audit.**

            Paul Mitcham, Commissioner of Community Services and Stuart Taylor,
            District Manager, North East Recreation provided an update regarding the
            May 2012 audit on the Mississauga Spectator Arena Complex (Hershey
            Centre). Mayor McCallion, Councillors Tovey, Fonseca and Starr raised
            questions concerning the Mississauga Spectator Arena Complex (Hershey
            Centre). Mr. Mitcham, Mr. Taylor and Janice Baker, City Manager and
            CAO addressed the Mayor and Councillors concerns.

Recommendation

AC-0016-2012
That the Mississauga Spectator Arena Complex (Hershey Centre) Update May 2012
Audit, be received.

Received (R. Starr)

INQUIRES - **Nil**

ADJOURNMENT – 10:16 am (Mayor McCallion)

MISSISSAUGA

Corporate
Report

DATE:	November 1, 2012	AUDIT COMMITTEE NOV 1 9 2012 NOV 1 0 2012

TO: Chair and Members of the Audit Committee
              Meeting Date: November 19, 2012

FROM: Brenda R. Breault, CMA, MBA
              Commissioner of Corporate Services and Treasurer

SUBJECT: **2012 Audit Planning Report**

RECOMMENDATION: 1. That the report dated November 1, 2012 from the Commissioner of Corporate Services & Treasurer with respect to the 2012 Audit Planning Report, be received for information.

2. That the Audit Committee approve the Audit Planning Report (Appendix 1) for the City's 2012 statutory audit.

BACKGROUND: Under the Audit Committee Charter (By-law 0321-2010), the Committee is responsible for reviewing the terms of engagement, fees and scope of the external audit which is scheduled to begin later this year.

KPMG LLP, Chartered Accountants (KPMG), were re-appointed by Council resolution for a five year term (fiscal years 2009 to 2013), subject to an annual review of the firm's performance.
For the 2009 to 2011 audit period, no staff concerns were raised or identified with regard to KPMG's performance and professionalism throughout the audit process.

COMMENTS: The letter of engagement for audit has been approved by Audit Committee and executed last year and does not need to be resigned this year. The engagement letter sets out the responsibilities of the Audit Committee, management, city staff and KPMG. It also includes the objectives, scope and limitations of the external audit. Communication matters were discussed as well.

The letter of engagement also states that the primary objective of the external audit is to discharge the statutory obligation of reporting to Council and the boards, inhabitants and ratepayers of Mississauga in accordance with municipal legislation. This will involve KPMG issuing an opinion on whether the financial statements present fairly the financial position and results of operations in accordance with generally accepted accounting principles.

The secondary objective of the external audit is to provide feedback on internal accounting practices, operating controls and other matters of material financial importance with respect to the City and its local boards. Accordingly, through the audit, KPMG would also provide recommendations as to corrective actions and offer advice and assistance with regard to implementation, if requested to do so.

During the 2011 audit, members of the KPMG Audit Team demonstrated knowledge of the City's operation, provided good advice and services to the City and met all objectives contained in the 2011 audit engagement letter.

Appendix 1 (see attached) contains the Audit Planning Report for the audit of fiscal year 2012. This report is designed to inform the Audit Committee and management of the audit procedures to be performed by KPMG in discharging its audit responsibilities.

FINANCIAL IMPACT: The fee being paid to KPMG for the 2012 audit for the City, the Library Board, and the three Business Improvement Areas (BIA's) is $130,250, excluding taxes.

The three Business Improvement Areas reimburse the City for their portion of the audit fees ($5,250).

In addition to the audited consolidated financial statements, KPMG provides special purpose reports for a number of areas (i.e. Next Step

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Program ($4,500), Federal Gas Tax Reporting ($2,500), and Federal Public Transit Fund Reporting ($1,500)). These special purpose reports are required for various Federal and Provincial Government funding initiatives.
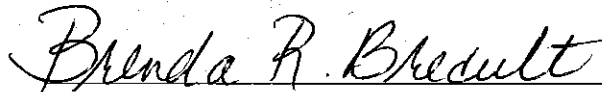
Fees for any other services, such as special purpose reports, will be billed separately from the services described in the engagement letter.

CONCLUSION: The audit objectives described in the 2012 Audit Planning Report have been set and will be applied for the upcoming annual audit.

ATTACHMENTS: Appendix 1:   2012 Audit Planning Report

Brenda R. Breault, CMA, MBA
Commissioner of Corporate Services and Treasurer

Prepared By: Mark Beauparlant, Manager, Corporate Financial Services

KPMG

cutting through complexity

AUDIT

The Corporation of the City of Mississauga

Audit Planning Report

For the year ending December 31, 2012

KPMG LLP Chartered Accountants, Licensed Public Accountants

kpmg.ca

Dear Audit Committee members,

Audit planning is the cornerstone of an effective, efficient and high quality audit. In developing our audit plan, we have worked with management to obtain a common understanding of the issues and related financial reporting risks facing the City of Mississauga and have designed our audit to focus on those areas of risk.

As members of the Audit Committee, you have a significant role to play in the oversight of our audit and we welcome any and all observations you may have regarding the decisions reflected in this audit plan.

Issues to focus during the current year

In addition to staying on top of public sector accounting changes we urge you to stay focused on the top priority for audit committees: financial reporting and internal control risk. Also, consider whether the financial statements and disclosures are telling the whole story, and whether disclosures can be improved to better address expectations of the public.   We would be pleased discuss current issues affecting the role of the audit committee with you at your convenience.   -

Audit quality

Audit quality is receiving an increased level of scrutiny around the world. Audit quality is at the core of everything we do at KPMG, and we believe that it is not just about providing the right audit opinion, but also the steps we take to provide that audit opinion. One component of our efforts in this area is the development and implementation of the KPMG Audit Quality Framework to help ensure that every partner and professional concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent audit opinion. We invite you to review "KPMG's Audit Quality Framework", summarized in the appendices of this report.
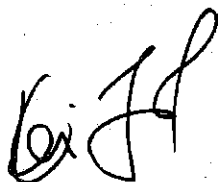
We believe this audit plan embodies our commitment to audit quality.

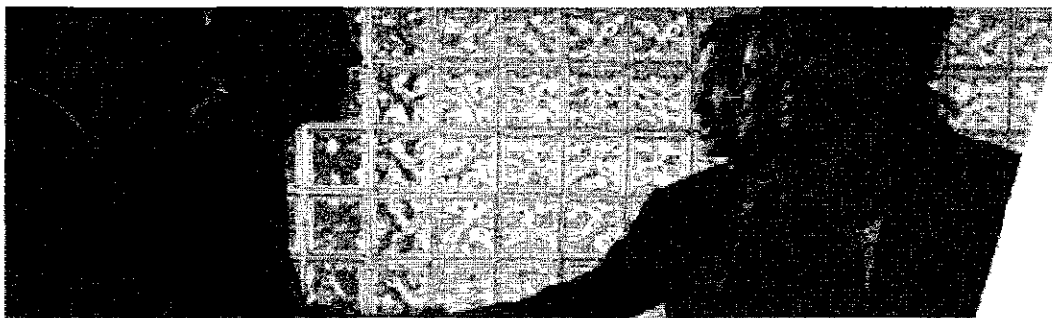### *Reaching out to audit committees*

KPMG's Audit Committee Institute (ACI) provides information, resources, and knowledge-sharing opportunities to help audit committees and directors strengthen the integrity of their financial reporting process and the quality of their corporate governance practices. The ACI's Audit Committee Roundtables are held across the country twice yearly. You are cordially invited to attend. For information on ACI's audit committee resources and roundtable registration, please visit www.kpmg.ca/auditcommittee.

We sincerely hope this Audit Planning Report is of assistance to you, and we look forward to discussing it in detail and answering any questions you may have at the upcoming audit committee meeting.
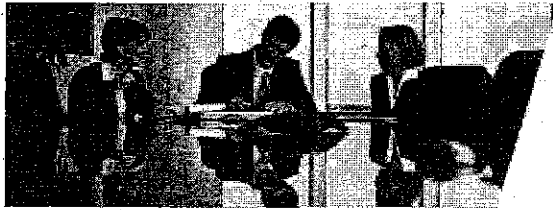
Yours sincerely,

At KPMG, we are passionate about earning your trust. We take deep personal accountability, individually and as a team, to deliver exceptional service and value in all our interactions with you. Ultimately, we measure our success from the only perspective that matters—yours.

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Contents

Audit plan

We have prepared this audit plan to inform you of the planned scope and timing of the audit for the purpose[1] of carrying out and discharging your responsibilities and exercising oversight over our audit of the consolidated financial statements.

What has changed from last year

We have set out below a summary of changes that have been taken into consideration in planning the audit for the current period:

Your organization

- City of Mississauga will be issuing debenture debt.

Other regulatory environment

- No significant standards directly impacting the annual audited financial statements.

- The Accessibility Standards for Customer Service (Ontario Regulation 429/07) of the Accessibility for Ontarians with Disabilities Act (AODA) has come into effect January 1, 2012. Corporations must comply with the requirements set out in the standard. Organizations with 20 or more employees have additional requirements to meet.

- Final regulations of Canada's Anti-Spam Law (CASL) is not expected until late 2012, with implementation expected in early 2013. Organizations should review the legislation and draft regulations to ensure compliance.

Accounting standards

- There are no accounting standard changes that impact the December 31, 2012 year end.

- Refer to the appendices for further discussion on future changes that impact future years.

Auditing standards

- There are no auditing standard changes that impact the December 31, 2012 year end.

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[1] This Audit Planning Report should not be used for any other purpose or by anyone other than the audit committee. KPMG shall have no responsibility or liability for loss or damages or claims, if any, to or by any third party as this Audit Planning Report has not been prepared for, and is not intended for, and should not be used by, any third party or for any other purpose.

Annual inquiries related to risks of fraud:

Professional standards require that we ask you questions in connection with your oversight of management's process for identifying and responding to the risks of fraud:

- What are your views about fraud risks in the entity?

- How do you provide effective oversight of programs and controls to prevent, detect and deter fraud, including oversight over internal controls management has established to mitigate fraud risks?

- Are you aware of, or have you identified any instances of, actual, suspected or alleged fraud, including misconduct or unethical behaviour related to financial reporting or misappropriation of assets? If so, have the instances been appropriately addressed and how have they been addressed?

Scope of the audit

The purpose of an audit is to enhance the degree of confidence of the users of the financial statements through the expression of an opinion on whether the financial statements fairly present, in all material respects, the financial position, results of operations and cash flows of the City of Mississauga in accordance with Public Sector Accounting Standards.

In planning our audit, we have considered the level of audit work required to support our opinion, including each of the following matters:

Our responsibilities

- Our responsibilities in carrying out our audit, as well as management's responsibilities, are set out in the engagement letter.

Materiality

- We determine materiality in order to plan and perform the audit and to evaluate the effects of identified misstatements on the audit and of any uncorrected misstatements on the financial statements.

- For the current period, materiality of $17 million has been determined.

- We will reassess materiality at period-end to confirm whether it remains appropriate for evaluating the effects of uncorrected misstatements on the financial statements.

- We will communicate uncorrected misstatements to you, other than those that are clearly trivial.

- Should uncorrected misstatements remain, in accordance with professional standards, we will:

  — request of management and of the audit committee that all uncorrected misstatements be corrected.

  — communicate the effect that uncorrected misstatements, individually or in aggregate, may have on our audit opinion.

Subsidiaries, joint ventures, divisions, equity method investees ("components") in consolidated financial statements

The group engagement team shall communicate an overview of the type of work to be performed on the financial information of the components. The group engagement team shall also communicate the nature of the group engagement team's planned involvement in the work to be performed by the component auditors on the financial information of significant components.

Professional standards require that we obtain an understanding of the City of Mississauga's organizational structure, including its components, and their environments that is sufficient to identify those components that are financially significant or that contain specific risks that must be addressed during our audit.

The components upon which we will plan to perform audit procedures are listed below:

Significant component

Enersource Corporation
Completeness, existence, accuracy of net income generated by this component.
Involvement of other auditors/KPMG member firms ("component auditor")
The component auditors, KPMG LLP from the Greater Toronto office, will be providing audit opinion on the fiscal year 2012 financial statements.
Nature of planned involvement in component auditor's work
Kevin Travers, is the engagement partner on both Enersource and the City, and will therefore be responsible for both sets of financial statements and ensuring that the modified equity pick up is properly performed.

Financial reporting risks

As part of our audit planning, we identify significant financial reporting risks that, by their nature, require special audit consideration. By focusing on these risks, we are able to target our procedures and deliver a high quality audit that is both efficient and effective.

The financial reporting risks identified during our audit planning are listed below:

Presumed risk of management override of control
Risk of fraud.
Summary of response to the presumed risk of management override of controls
Professional standards require certain procedures to be performed to address the presumed risk of management override of controls. We plan on performing these required procedures.   • Testing of journal entries   • Performing a retrospective review of estimates

Tangible capital assets
Risk of material misstatement prior to consideration of internal controls
Low
Summary of planned audit approach
• Update our understanding of the activities over the initiation, authorization, processing, recording and reporting   *Substantive approach*   • Select a sample of additions for examination   • Review a sample of any dispositions during the year   • Recalculate amortization expense for the year   • Review process for ensuring that amortization commences when project is substantially complete   • Review disclosures

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Tax receivable and taxation revenue

Risk of material misstatement prior to consideration of internal controls

Low

Summary of planned audit approach

- Update our understanding of the activities over the initiation, authorization, processing, recording and reporting

Substantive approach

- Substantive approach recalculating tax revenue using approved tax rates and assessments.

Deferred revenue – obligatory reserve funds

Risk of material misstatement prior to consideration of internal controls

Low

Summary of planned audit approach

- Update our understanding of the activities over the initiation, authorization, processing, recording and reporting

Substantive approach

- Review of the City prepared calculation of deferred revenue balance with the responsible individuals.

Expenditures – salaries and benefits

Risk of material misstatement prior to consideration of internal controls

Low

Summary of planned audit approach

- Update our understanding of the activities over the initiation, authorization, processing, recording and reporting

Controls / Substantive approach

- Perform control testing over payroll cycle

- Select a sample of employees for existence and accuracy of payroll information

Accounts payable, accrued liabilities and other expenditures

Risk of material misstatement prior to consideration of internal controls

Low

Summary of planned audit approach

- Update our understanding of the activities over the initiation, authorization, processing, recording and reporting

Control / Substantive approach

- Testing controls over the disbursement process
- Search for unrecorded liabilities
- Select a sample of expenditures for examination to ensure proper authorization, existence and accuracy
- Examine accrued liabilities for existence, accuracy and completeness

Employee future benefits

Risk of material misstatement prior to consideration of internal controls

Low

Summary of planned audit approach

- Update our understanding of the activities over the quality of information used, the assumptions made, the qualifications, competence and objectivity of the preparer of the estimate, and the historical accuracy of the estimates.

Substantive approach

- Communication with actuaries and testing of data provided to the actuaries
- Review assumptions used
- Review of disclosures

Timing of the audit

We have discussed the key audit deliverables with management and the expected dates indicated below have been agreed upon:

Key deliverables and expected dates	
Deliverables	**Expected date(s)**
Conduct interim audit field work	Week of November 12, 2012
Present Audit Planning Report to Audit Committee	November 19, 2012
Conduct year-end audit field work	Week and a half commencing January 31, 2013 for BIAs. Weeks of February 11, February 18 and February 25, 2013 for City, Library and Trust Funds
Finalization of financial statements including Enersource	Week of March 25, 2013
Present the Audit Findings Report to the Audit Committee	TBD
Provide audit opinion on financial statements	TBD

Performance improvement observations

During the course of our audit, we may become aware of opportunities for improvements in financial or operational processes or controls. We will discuss any such opportunities with management and provide our recommendations for performance improvement. We will also include a synopsis of these issues and our recommendations in our Audit Findings Report to be delivered to you at the completion of the audit.

Appendices

KPMG's Audit Quality Framework
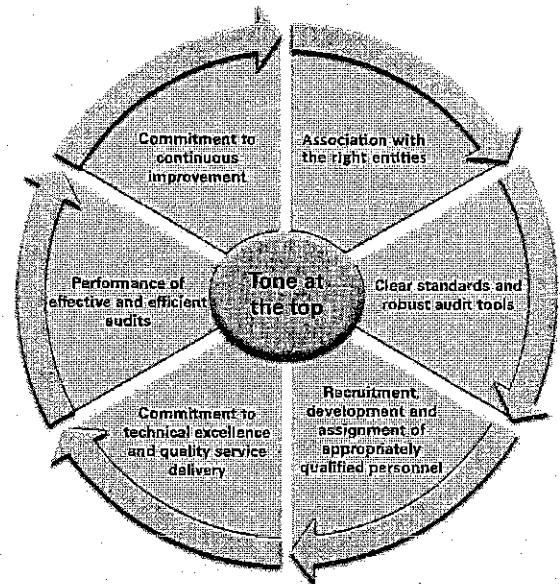
Other current developments

KPMG's Audit Quality Framework

Audit quality, and the respective roles of the auditor and audit committee, is fundamental to the integrity of financial reporting in our capital markets.

This is why audit quality is at the core of everything we do at KPMG. And we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To help ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

The framework comprises seven key drivers of audit quality.

The seven key drivers of audit quality

Driver	What it does	What it means to you
Tone at the top	**Audit quality is part of our culture and our values and therefore non-negotiable** Allows the right behaviours to permeate across our entire organization and each of our engagements	**Assures you that:** • Our culture supports our promise to you of excellent service and a high quality audit—consistently • You're receiving an independent, transparent, audit opinion • You're receiving an efficient and high quality audit that will help you maintain investor confidence in your financial statements
Association with the right entities	**Ethics above all** Eliminates any potential independence and conflict-of-interest issues	
Clear standards and robust audit tools	**A solid rule book** Rigorous internal policies and guidance that help ensure our work meets applicable professional standards, regulatory requirements, and KPMG's standards of quality	**Provides you with:** • An engagement team handpicked for your business needs – a team with relevant professional and industry experience • An audit engagement team whose qualifications evolve as your business grows and changes • An audit opinion that continues to meet your needs as a participant in the capital markets
Recruitment, development and assignment of appropriately qualified personnel	**People who add value** Helps us attract and retain the best people and reinforces the importance of developing their talents Assigns Partners' portfolios based on their specific skill sets	
Commitment to technical excellence and quality service	**The right tools for the right job** Promotes technical excellence and quality service delivery through training	**Assists you with:**

Driver	What it does	What it means to you
delivery	and accreditation, developing business understanding and industry knowledge, investment in technical support, development of specialist networks, and effective consultation processes	• Assessing the effectiveness and efficiency of the audit • Performing your governance role with confidence.
Performance of effective and efficient audits	**We understand that how an audit is conducted is as important as the final result.** A code of conduct, audit delivery tools, and internal policies and procedures that help ensure the work performed by engagement personnel meets applicable professional standards, regulatory requirements, and our standards of quality	
Commitment to continuous improvement	**Comprehensive and effective monitoring** We regularly solicit feedback from the audit committees of the entities we audit. Our robust internal quality review program ensures the work of each partner is reviewed every three years. Additionally, our procedures and a sample of our audits of listed entities are reviewed by the Canadian Public Accountability Board (CPAB), the independent regulator of the accountancy profession in Canada. The Public Company Accounting Oversight Board (PCAOB) in the US also conducts an annual inspection of a sample of our audits of SEC registrants. Finally, a sample of other audits and reviews is undertaken annually by the various provincial institutes in Canada. We consider the recommendations that come from these reviews and implement actions to strengthen our policies and procedures, as appropriate.	

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The regulatory landscape is changing

Uncertain economic forecasts and a changing regulatory environment define today's world; reliable financial information and high-quality audits have never been more essential.

We believe that high quality audits contribute directly to market confidence and we share your objectives of credible and transparent financial reporting.

Our Audit Quality Framework is particularly relevant to Audit Committees, and we see our role in being transparent to you as a key mechanism to support you in the execution of your responsibilities.

Our commitment to quality

The independence, judgment and professional skepticism of your auditors add value to your financial statements, and we believe it is important to be transparent about the processes we follow to develop a KPMG audit report. We want you to have absolute confidence in us and in the quality of your audit.

Our own professional standards dictate technical requirements for reaching and communicating an audit opinion. And we live and abide by these requirements. We invest heavily in our quality, and the Audit Quality Framework helps ensure these investments are the right ones—that they help us continuously drive and maximize our quality improvements. But we feel it is also important that we communicate to you how we view and implement audit quality. The seven key drivers outlined here, combined with the commitment of each individual in KPMG, are meant to do just that.

KPMG member firms across the world use this audit quality framework to describe, focus on and enhance audit quality for the benefit of the entities we audit and in support of the efficacy of our capital markets.

It is our hope that sharing our vision of what audit quality means is a significant step in building confidence in the value of our audits.

Audit quality is fundamental to the way we work.

Other current developments

New Standard on Tax Revenue

Highlights

A new standard has been issued which establishes standards on how to account for and report tax revenue. This standard provides principles for the recognition of taxes collected on behalf of others. Tax revenue is to be recorded by the government that imposes the tax, except in a purely flow through arrangement.

Effective date and transition

The standard is effective for fiscal periods beginning on or after April 1, 2012 however earlier adoption is encouraged.

Implications

This standard will be applicable to the December 31, 2013 fiscal year. It is not expected that this standard will have a material impact on the municipality's financial statements.

New Standard on Financial Instruments

Highlights

A new standard has been issued establishing standard on accounting for and reporting all types of financial instruments including derivatives.

The standard requires that all financial instruments that are equity instruments and trade in an active market or derivatives be recorded at fair value. The standard requires that all other financial instruments are recorded at cost but permits the option of fair value for any financial instruments that are managed and reported at fair value. This standard also includes a requirement to identify and report embedded derivatives separate from the host contract with an option to value the full contract which includes the embedded derivatives at fair value.

Effective date and transition

The standard is effective for fiscal periods beginning on or after April 1, 2012 for government organizations and April 1, 2015 for governments. Earlier adoption is permitted. An entity early adopting this standard must also early adopt the revised Foreign Currency Translation standard. PSAB intends to review the application of this standard for governments by December 31, 2013.

Implications

This standard requires the City to record any equity investments that trade in an active market at fair market value. The City can also elect to record any investments that are managed and evaluated on a fair value basis at fair value. Changes in fair value of all assets that are recorded at fair market value will be reported in a new financial statement; the statement of re-measurement gains and losses.

This standard will also require the City to identify any contracts that have embedded derivatives and recognize these on the statement of financial position at fair value.

This standard sets out a number of disclosures in the financial statements designed to give the user an understanding of the significance of financial instruments to the City. These disclosures include classes of financial instruments and qualitative and quantitative risk disclosures describing the nature and extent of risk by type (credit, liquidity and market).

Revised Standard on Foreign Currency Translation

Highlights

A revised standard has been issued establishing standards on accounting for and reporting transactions that are denominated in a foreign currency.

Effective date and transition

The standard is effective for fiscal periods beginning on or after April 1, 2012 for government organizations and April 1, 2015 for governments, however earlier adoption is permitted. An entity early adopting this standard must also adopt the new Financial Instruments standard.

Implications

Exchange gains and losses arising prior to settlement are recognized in a new statement of re-measurement gains and losses.

Standard on Contaminated Sites

Highlights

A new standard has been issued establishing standards on accounting for and reporting the liability related to contaminated sites.

This standard requires a municipality to record a liability when the standard exists, the contamination in question exceeds an authoritative environmental standard and the municipality is directly responsible or accepts responsibility. Voluntary compliance with a non-authoritative policy or guideline may create a liability.

Effective date and transition

The standard is effective for fiscal periods beginning on or after April 1, 2012 however earlier adoption is permitted.

Implications

The City will have to review any contaminated sites and determine if a liability meets the standards such that it must be reported.

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MISSISSAUGA
Corporate Report

AUDIT COMMITTEE
NUV 1 9 2012

DATE: November 5, 2012

TO: Chair and Members of Audit Committee
Meeting Date: November 19, 2012

FROM: Janice M. Baker, FCA
City Manager & Chief Administrative Officer

SUBJECT: **Status of Outstanding Audit Recommendations**

RECOMMENDATION: That the report dated November 5, 2012 from the City Manager &
Chief Administrative Officer regarding the status of outstanding audit
recommendations be received for information.

REPORT HIGHLIGHTS:	
	• This report shows the status of outstanding recommendations since the update report presented to the Audit Committee at the May 2012 meeting.
	• Thirty (30) recommendations outstanding from the May 2012 report remain outstanding as of September 30, 2012, of which eleven (11) will be completed by year end and the remaining will be done throughout 2013.
	• Eighteen (18) recommendations with due dates between April 1, 2012 and September 30, 2012 were added to the follow up. Eleven (11) have been implemented and seven (7) will be completed prior to September 30, 2013.

BACKGROUND: The Terms of Reference for the Audit Committee requires the

submission of an annual report from the City Manager & Chief Administrative Officer indicating progress made in addressing recommendations which were made by Internal Audit and by the City's External Auditor. At the November 2011 Audit Committee meeting, members requested that a bi-annual progress update be submitted for 2012. The first report was presented at the May 7, 2012 Audit Committee Meeting showing status of outstanding audit recommendations as of March 31, 2012. The current report shows the status as of September 30, 2012.

COMMENTS:

A summary of recommendations which were outstanding as of March 31, 2012 (the effective date of the previous report to the Audit Committee) and new recommendations which were scheduled for completion from April 1, 2012 to September 30, 2012 is attached as Appendix 1. This report does not include recommendations which were scheduled for implementation after September 30, 2012.

Twenty-eight (28) of the fifty-eight (58) recommendations which were previously outstanding as at March 31, 2012 have since been completed. In addition, of the eighteen (18) new recommendations that were due between April 1, 2012 and September 30, 2012, eleven (11) have been implemented. Implementation of the recommendations has been verified by Internal Audit.

Status and comments for the thirty (30) recommendations that were outstanding as at March 31, 2012 and remain outstanding as at September 30, 2012 are shown in Appendix 2.

These recommendations are summarized under six (6) main categories:

- Computer system implementation or upgrade – five (5) recommendations
- Review and update of Corporate Policies – ten (10) recommendations
- Security Profiles – three (3) recommendations
- Business Process Documentation – six (6) recommendations
- Training – two (2) recommendations
- Privacy and Confidentiality – four (4) recommendations

Implementation of some of the recommendations was delayed due to resource issues; staff turnover; pending upgrade to computer systems; and completion of comprehensive reviews in related areas.

Of the thirty (30) outstanding recommendations, eleven (11) are expected to be completed by the end of 2012; seven (7) by March 31, 2013; three (3) by June 30, 2013; and the remaining nine (9) by the end of 2013.

FINANCIAL IMPACT: None
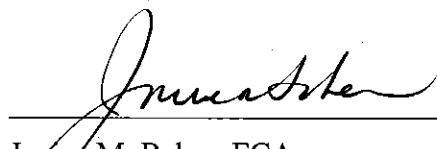
CONCLUSION: In summary, seventy six (76) recommendations were scheduled for implementation prior to September 30, 2012, of which thirty nine (39) were completed and thirty seven (37) are in progress. Thirteen (13) outstanding recommendations will be completed by year end; ten (10) before the end of March 2013 and the remaining fourteen (14) will be completed by December 31, 2013.

Continuous efforts are being made to implement audit recommendations and progress is closely monitored to ensure timely implementation.

ATTACHMENT: Appendix 1: Status of Outstanding Audit Recommendations as of September 30, 2012

Appendix 2: Status of Audit Recommendations Outstanding as of March 31, 2012 and remain Outstanding as of September 30, 2012

_____

Janice M. Baker, FCA
City Manager & Chief Administrative Officer

Prepared By: Barbara Webster, Senior Internal Auditor

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STATUS OF OUTSTANDING AUDIT RECOMMENDATIONS
AS OF September 30, 2012*

(1) Audit	(2) Date Issued (MM/YY)	(3) Outstanding* March 31, 2012	(4) New**	(5) Implemented/ Resolved	(6) Outstanding September 30, 2012
Urban Forestry Capital Contracts	03/07	2		2	
Payroll Audit, Phase 3	09/07	1		1	
Facility Rental Revenue	09/08	6		1	5
Accounts Receivable Collection Processes	04/09	1			1
Transit Maintenance	09/09	1			1
Program Registration and Membership	11/09	4			4
Reimbursement of Expenses	04/10	3			3
Privacy	09/10	9		6	3
Property Tax Master Data	09/10	2	1	3	
Health Benefits Contracts	11/10	1			1
Mobile Licensing Revenue	02/11	9		2	7
I.T. Software Licensing	04/11	1		1	
Compliance & Licensing Revenue	09/11	5		1	4
Active Directory	09/11	2	8	9	1
Streetlighting Services	09/11	9		8	1
Transit Operator Testing Fee Deposits	09/11	1		1	
Tax Adjustments	10/11	1	1	2	
Acquisition of Library Materials	11/11		1		1
Cash Receipt Forms	02/12		4		4
Mississauga Transit Coin Room	02/12		1		1
Transit Tickets and Passes Audit	09/12		2	2	
TOTAL		**58**	**18**	**39**	**37**

* This chart includes only recommendations which were originally scheduled for implementation on or prior to March 31, 2012.

** Recommendations in the "New" column were originally scheduled for completion between April 1, 2012 and September 30, 2012.

STATUS OF AUDIT RECOMMENDATIONS
OUTSTANDING AS OF MARCH 31, 2012 AND
REMAIN OUTSTANDING AS OF SEPTEMBER 30, 2012

Category	Audit	No. of Recommendations	Comments/Status
Computer System implementation or upgrade	2009 Accounts Receivable Collection Process	1	Business case for the accounts receivable system has been approved. The project is currently undergoing a value engineering process with SAP. Expected completion is scheduled for the end of 2013.
	2011 Mobile Licensing Revenue	3	Staff in Mobile Licensing are working with Information Technology to enhance the AMANDA application to enhance operational controls and efficiencies and create management reports. These recommendations are expected to be completed before the end of 2013.
	2011 Compliance and Business Licensing Revenue	1	Staff in Compliance and Business Licensing are working with Information Technology to create reports for Business Licensing and Charity Gaming to assist with monthly reconciliation. This is expected to be done by the end of 2012.
Review and Update of Corporate Policies	2008 Facility Rental Revenue	5	The facility rental fee structure review was completed and endorsed in principle by Council in November 2011. Further work was required to finalize the review. Completion of practice review and update to the policies are expected to be done by June 2013.
	2009 Transit Maintenance	1	A comprehensive review of all insurance related policies is currently in progress. Delays were experienced because of staff turnover. This recommendation will be addressed as part of the review which is scheduled for completion by March 2013.
	2010 Reimbursement of Expenses	3	Direction for the Tuition Reimbursement Policy was endorsed by the Leadership Team in October 2012. A final report and policy are to be drafted and returned to LT for approval in early 2013.

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STATUS OF AUDIT RECOMMENDATIONS
OUTSTANDING AS OF MARCH 31, 2012 AND
REMAIN OUTSTANDING AS OF SEPTEMBER 30, 2012

Category	Audit	No. of Recommendations	Comments/Status
	2011 Streetlighting Services	1	This recommendation deals with updating the City Policy on Capital Charges for Region Road Streetlighting which involves the Arterial Road Review with the Region of Peel. This is expected to be complete by the end of 2013.
Security Profiles	2009 Program Registration and Membership	3	Implementation of the recommendations relating to access to CLASS is in progress and scheduled for completion in December 2012.
Business Process Documentation	2009 Program Registration and Membership	1	Update to existing business practices to reflect amendments to administration of recreation fees will be completed by the end of 2012.
	2010 Health Benefits Contract	1	Detailed documented contract management process for health benefits contract is scheduled for completion by the end of 2012.
	2011 Compliance and Business Licensing	2	Detailed business procedures will be written and/or enhanced by the end of 2012.
	2011 Mobile Licensing Revenue	2	Staff are developing a procedure to receive updates from the Court system relating to outstanding fines. Detailed business procedures will also be documented for Mobile Licensing. Due to the implementation of Admin penalties and changes in management and staff turnover, these recommendations will be addressed in the Section's 2013 work plan.
Training	2011 Mobile Licensing Revenue	1	Priority is given to documentation of the training manual for the AMANDA system. Once the manual is complete, staff will undergo training. Due to the changes in management, this recommendation is expected to be completed by the end of 2013.

STATUS OF AUDIT RECOMMENDATIONS
OUTSTANDING AS OF MARCH 31, 2012 AND
REMAIN OUTSTANDING AS OF SEPTEMBER 30, 2012

Category	Audit	No. of Recommendations	Comments/Status
	2011 Compliance and Business Licensing	1	Staff in Lottery Licensing will be trained in Crystal Reports by the end of 2012.
Privacy and Confidentiality	2010 Privacy	1	Updating the Personal Information Bank Register is ongoing and expected to be complete by March 2013.
	2010 Privacy	2	Confidentiality Agreement Template is expected to be rolled out to all applicable City staff by the end of 2012.
	2011 Mobile Licensing Revenue	1	Staff are developing a solution for securing personal and confidential hard copy information. This is expected to be implemented by the end of 2013.
TOTAL		30	

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Corporate Report

DATE: November 6, 2012

TO: Chair and Members of Audit Committee
                   Meeting Date: November 19, 2012

FROM: Sally P. Eng, Director, Internal Audit

SUBJECT: **Status of the Consulting Engagement on Information Security -
                   Identity and Access Management for the Corporate Services
                   Department, Information Technology Division**

RECOMMENDATION: That the report dated November 6, 2012 from the Director, Internal
                    Audit regarding the status of the Consulting Engagement on
                    Information Security - Identity and Access Management for the
                    Corporate Services Department, Information Technology Division, be
                    received for information.

BACKGROUND: At the May Audit Committee Meeting, the Audit Committee approved
                    that the Information Security Audit on identity and access
                    management be switched from an assurance assignment to a
                    consulting engagement. The reason for the switch is because IT
                    Management has already started a number of initiatives which could
                    directly or indirectly influence the identity and access management
                    standards, practices, monitoring and reporting within the City's
                    technology and staff environment. As a result, Internal Audit took on
                    an advisory role in three of the IT initiatives and provided proactive
                    consultation to the Steering Committees and Project Teams.

                    The three projects were:

                    - Security Access (990) Form Business Process Review and Re-
                      Engineering;
                    - IT Security and Risk Management Program; and
                    - Identity and Password Management Application Review.

R-3(a)

COMMENTS: The following is a summary of Internal Audit activities with respect to the three projects selected for consultation: .

Security Access (990) Form Business Process Review and Re-Engineering

The key objectives of this project are to improve the efficiency of the service requests that are being channelled through the 990 Form process and to improve the audit trail of the various IT service requests. Internal Audit has been involved with this initiative during the past 5 months. Activities have included discussions with IT staff related to business needs assessment; review of the business process flow; and providing recommendations related to security access requests and segregation of authority in the "Form Approval" process. Recommendations were also made to involve staff from Corporate Records in relation to the retention of electronic forms data.

Information Technology Security and Risk Management (ITSRM) Program

The objective of this project is to establish a comprehensive program that will address elements to protect the City's information infrastructure and to obtain and sustain Payment Card Industry (PCI) Compliance. Participation of Internal Audit in the development of this program involves ongoing discussions with the Project Leader and IT Security Specialist with respect to IT security standards and requirements including:

- ISO 27000 series;
- Industry trends and practices;
- Controls and assurance requirements through COBIT and related publications; and
- the need to comply with Corporate requirements *(i.e. Electronic Records Management, MFIPPA and retention and compliance monitoring).*

Through the Information Technology Security Task Force, Internal Audit:

- Has recommended, and IT staff related to the Program had attended, specific training such as the *Gartner Security & Risk Management Summit*;
- Has provided appropriate ISACA standards and documentation, IIA documentation, industry guidelines, audit programs and "best practices" to the Project Leader and IT Security Specialist where appropriate; and
- Continues to monitor Payment Card Industry compliance

activities.

Identity and Password Management Application Review

This project is to review and investigate applications related to identify and access specifically password management. IT staff have undertaken preliminary review of software applications for the management of "Identity and Passwords". Internal Audit attended a demonstration of one of the commercial solutions being considered. Further evaluation of alternate solutions is being scheduled by IT staff.
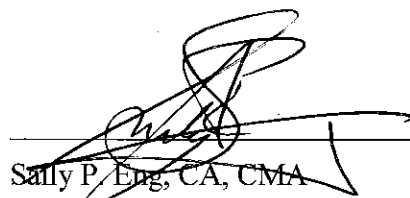
Current Status

All three selected projects are still in progress. IT staff are moving forward with the implementation of a number of specific project components. Internal Audit will continue to review and assess the deliverables and provide advice where appropriate.

FINANCIAL IMPACT: None

CONCLUSION: The consulting engagement for selected IT Initiatives related to identity and access management has been ongoing throughout Q2 and Q3 of 2012. Internal Audit has been involved in discussions and review of the business needs assessment and business process flows. Recommendations relating to technology standards, "best practices", research, training and controls have been communicated to the project teams and staff where appropriate.

ATTACHMENTS: None

Sally P. Eng, CA, CMA
Director, Internal Audit

Prepared By: Craig Emick, BES, CISA, CISM, CRISC, MCSE
Information Technology Auditor

MISSISSAUGA *Corporate Report*

AUDIT COMMITTEE

NUV 1 9 2012

DATE: November 7, 2012

TO: Chair and Members of Audit Committee
                   Meeting Date: November 19, 2012

FROM: Sally P. Eng, CA, CMA
                   Director, Internal Audit

SUBJECT: **Internal Audit Quality Assurance Review**

RECOMMENDATION: That the report dated November 7, 2012 from the Director, Internal
                     Audit with respect to the Internal Audit Quality Assurance Review be
                     received for information.

REPORT HIGHLIGHTS:

- The *Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors (IIA) require the internal audit activity to "develop and maintain a quality assurance and improvement program" which "includes periodic internal and external quality assessments and ongoing internal monitoring".

- In October 2012, Internal Audit completed a self-assessment and found that the internal audit activities of the City "generally conforms" to the *Standards*, Code of Ethics and the City's Internal Audit Charter (By-law 0240-2004).

- A qualified independent reviewer was subsequently engaged to conduct an external quality assessment to validate the results of Internal Audit's self-assessment.

- The independent validation confirmed Internal Audit's self-assessment results and found that the City's "Internal Audit Division is well-structured and progressive, where the IIA *Standards* are understood and where useful audit tools are implemented to deliver value-added internal audits".

R-4(a)

BACKGROUND: The Internal Audit Charter (By-law 0240-2004) states that one of Internal Audit's values and operating principles is to "perform independent assessments of risk and control guided by the *Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors (IIA)*". Although the Charter does not stipulate that Internal Audit **must** comply with the IIA Standards, compliance is encouraged and has been monitored to maintain Internal Audit's credibility with the Audit Committee and senior management and to promote a high level of efficiency and effectiveness in internal audit activities.

One of the Professional Standards of the IIA (Standard 1300) requires the chief audit executive to "develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity". This program "must include periodic internal and external quality assessments" and "ongoing monitoring of the performance of the internal audit activity". Each part of the program is designed to help the internal auditing activities add value and improve the organization's operations and to "evaluate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards".

Internal Audit conducts ongoing reviews of its activities and has implemented continuous improvement initiatives. In compliance with IIA Standard 1312 which requires external assessments to be "conducted at least once every five years by a qualified, independent reviewer or review team from outside the organization", Internal Audit also performs a full Self-Assessment Review every five (5) years to determine the level of compliance with the IIA Standards, Code of Ethics and the City's Internal Audit Charter (By-law 0240-2004), and engages an external consultant to validate the results of the self-assessment. The previous Quality Assessment Review was completed in 2007 when the independent validation at that time concluded "that the Internal Audit Division of the City of Mississauga generally conforms to the Standards for the Professional Practice of Internal Auditing, and adds significant value to the organization".

A full Quality Self-Assessment Review was recently completed by one of the Senior Internal Auditors in October 2012. Subsequent to

the completion of the review, Mr. Lal Balkaran, a qualified Internal Audit, Risk, and Corporate Governance Consultant, was engaged to conduct an independent validation of the results of the internal assessment.

COMMENTS:

Results of the 2012 Self-Assessment shows that the Internal Audit Division of the City of Mississauga "Generally Conforms" to the *Standards for the Professional Practice of Internal Auditing* of the Institute of Internal Auditors (IIA) and is in full compliance with the Institute's Code of Ethics and the City's Internal Audit Charter. As defined by the IIA, "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."

The External Validation of the 2012 Self-Assessment Review Report prepared by Mr. Balkaran is presented in Appendix 1. The External Review validated the results of Internal Audit's self-assessment and confirmed that the Internal Audit Division of the City of Mississauga operates in accordance with the IIA's Professional Standards and Code of Ethics, as well as the City's Internal Audit Charter. It also found that "The City of Mississauga's Internal Audit Division is well-structured and progressive; where the IIA *Standards* are understood and where useful audit tools are implemented to deliver value-added internal audits". The report listed a number of successful practices in place and outlined opportunities for further improvement.

In addition, Mr. Balkaran ranked the City's Internal Audit Division in the "Cutting Edge Practices" category of a Maturity Model that he uses for similar engagements. This ranking means that the Audit Division conforms to leading practices in the industry and the IIA's International Professional Practices Framework, as well as the standards of ISACA (relating to information systems governance, security and assurance). The ranking also describes the Director, Audit and staff members as well respected, knowledgeable, appropriately qualified and highly motivated; Internal Audit is perceived as a key governance mechanism that makes use of technological advances to deliver quality audits; and processes exist to adapt to the changing internal auditing and risk landscape. Detail of
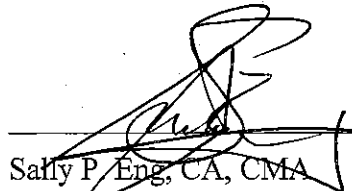
the Maturity Model and description are presented in Appendix 2.

FINANCIAL IMPACT: None.

CONCLUSION: Results of Internal Audit's Self-Assessment and External Validation reveal that the Internal Audit Division of the City of Mississauga "Generally Conforms" to the *Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors* and fully complies with the Institute's Code of Ethics and the City of Mississauga's Internal Audit Charter (By-law 0240-2004). Results of the independent validation also confirm that the Internal Audit Division is well-structured and progressive, with successful practices in place to deliver value-added audits to the City.

ATTACHMENTS: Appendix 1: External Validation of the 2012 Self-Assessment Review

Appendix 2: Maturity level as determined by the External Validator

Sally P. Eng, CA, CMA
Director, Internal Audit

Prepared By: Al Steinbach, CMA, CRMA
Senior Internal Auditor

Appendix 1

Lal Balkaran

MBA, CIA, FCGA, FCMA, CGMA

Internal Audit, Risk, and Corporate Governance Consultant

City of Mississauga

Internal Audit Division

External Validation of the 2012 Self-Assessment Review

Summary and Observations Report

November 2012

R-4(e)

Table of Contents

I. Overview

Background

I was engaged by the City of Mississauga Internal Audit Division ("IAD") to perform an external validation of their 2012 self-assessment. The principal objective of my engagement was to assess the IAD's conformance to The Institute of Internal Auditors ("IIA")'s *International Standards for the Professional Practice of Internal Auditing* (IIA *Standards*) and compare their audit practices against leading practices in other select municipalities. As a result, information from the audit departments of the Cities of Oshawa, Calgary, and Hamilton, was used for this comparison.

Opinion

It is my overall opinion that the IAD activity generally conforms to the IIA *Standards* and Code of Ethics. For a detailed list of conformance to individual standards, please see Appendix A.

The IIA *Quality Assessment Manual* suggests a scale of three ratings, "generally conforms," "partially conforms," and "does not conform." "Generally Conforms" is the top rating and means that an IA activity has a charter, policies, and processes that are judged to be in conformance with the *Standards*. "Partially Conforms" means deficiencies in practice are noted that are judged to deviate from the *Standards*. "Does Not Conform" means deficiencies in practice are judged to be so significant as to seriously impair or preclude the IA activity from performing adequately in all or in significant areas of its responsibilities.

Scope

As part of the preparation for this validation, the IAD prepared a self-assessment report with detailed information against each IIA *Standards* which was the basis for my validation. In addition, the Chair of the Audit Committee, five City of Mississauga staff members, and the external auditor were selected for interview. They included the City Manager; Director, Internal Audit; one Senior Auditor; Director, Information Technology; and Director, Revenue, Materiel Management and Business Services. A summary of the interview results has been provided to the Director, Internal Audit. I also reviewed a range of information including the IAD's risk assessment and audit planning processes, audit policies and procedures, tools and methodologies, engagement and staff management processes, three working paper files and sample reports to the Audit Committee.

The scope of the project included:

- ➢ Assessment of the quality of the risk assessment methodology;

- ➢ Evaluation of the efficiency and effectiveness of the audit methodology used to conduct internal audits;
- ➢ Evaluation and effectiveness of the quality of reporting by the IAD;
- ➢ Analysis of audit tools that support the internal audit processes;
- ➢ Evaluation of the IAD's training and personnel review process; and
- ➢ Analysis of the IAD's mission and practices to ensure they are inline with the Audit committee's oversight function, senior management and auditees' expectations.

Project Methodology

My project approach consisted of:

- ➢ Conducting structured interviews with the Chair of the Audit Committee, five staff members, and the external auditor mentioned above. The interviews were held to gain an understanding of the needs, expectations, and views regarding the IAD's structure and general performance;
- ➢ Reviewing documentation including internal audit policies and procedures, the risk assessment and related methodology documentation, the internal audit plan, a sample of three audit working paper files, staff profiles, quality assurance program, budgets, audit tools, and any other information I felt relevant to meeting the project objectives;
- ➢ Comparing how the IAD compares against internal audit leading practices at other select municipalities (Calgary, Oshawa, and Hamilton);
- ➢ Preparing an ``Independent Validator Statement (see Appendix B) to conform with the IIA *Quality Assessment Manual*; and
- ➢ Preparing a report that summarizes my findings and recommendations in conformance with Tool #21 of the above manual.

II. Executive Summary

General

Included in Appendix C is a matrix which summarizes my detailed observations and recommendations. The observations were assigned a rating[1] which is based on three levels of descending priority. The recommendations are presented for management consideration and represent a suggested approach to enhance the related process. Implementation decisions regarding which observations and recommended course of action to implement are the responsibility of IAD management.

Positive Attributes

The City of Mississauga's Internal Audit Division is well-structured and progressive, where the IIA *Standards* are understood and where useful audit tools are implemented to deliver value-added internal audits. Some successful practices in place are:

> - The IAD and its Director are well-respected and internal audit is considered a valued business adviser throughout the City;
> - Reports to the Audit Committee are comprehensive;
> - The Director, Internal Audit works effectively with the External Auditor, Audit Committee and has ongoing communication with the External Auditor, Audit Committee Chair, and the City Manager. An open communication channel generally leads to better corporate governance;
> - Eighty per cent of staff members hold recognized accounting and auditing related certifications;
> - There is a robust Information technology auditing effort within the IAD;
> - There is an established risk methodology for determining the 2012 audit plan;
> - There is a comprehensive audit policies and procedures manual;
> - Knowledge Management is encouraged and practiced as there is a Library with some good books, research reports, and specialized publications;
> - There is active participation in the Municipal Internal Auditors Association;
> - Staff morale is high;
> - The Planning, Fieldwork, and Reporting aspects of audit engagements are aligned with leading practices;
> - Key performance measures and metrics are used to monitor audits and manage the audit effort;
> - An Audit Effectiveness Questionnaire is used on each audit; and
> - Annual staff and management surveys are done.

As with any function within an organization, there are opportunities to improve existing practices that should further strengthen the overall effectiveness of the IAD. I have summarized my

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1 The rating system used is High, Moderate and Low with a level of recommended action to be taken by the IAD defined for each rating

R-4(i)

recommendations by key process below. These recommendations are based on my detailed observations and recommendations included in Appendix C.

Summary of Observations and Recommendations

The following observations below are based on leading practices at other municipalities and at other organizations:
- The internal audit charter needs to be revamped and include a reference to information technology (IT) standards;
- Working paper files are not currently automated;
- A File Completion Checklist is not used in working paper files;
- There is a need to include additional material in the Audit Policies and Procedures Manual; and
- Some additional information need to be included in the IAD's site within the City's website.

See Appendix C for detail observations and recommendations that support each of the above issue

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III. Appendix A – IIA Standards Compliance Evaluation Summary

Standard Number	III Standard	Generally Conforms	Partially Conforms	Does Not Conform
	OVERALL EVALUATION	✓		
	ATTRIBUTE STANDARDS	✓		
1000	Purpose, Authority, and Responsibility	✓		
1010	Recognition of the Definition of Internal Auditing, the Code of Ethics, and the *Standards* in the Internal Audit Charter	✓		
1100	Independence and Objectivity	✓		
1110	Organizational Independence	✓		
1111	Direct Interaction with the Board	✓		
1120	Individual Objectivity	✓		
1130	Impairment to Independence or Objectivity	✓		
1200	Proficiency and Due Professional Care	✓		
1210	Proficiency	✓		
1220	Due Professional Care	✓		
1230	Continuing Professional Development	✓		
1300	Quality Assurance and Improvement Program	✓		
1310	Requirements of the Quality Assurance and Improvement Program	✓		
1311	Internal Assessments	✓		
1312	External Assessments	✓		
1320	Reporting on the Quality Assurance and Improvement Program	✓		
1321	Use of "Conforms with the International Standards for the Professional Practice of Internal Auditing"	✓		
1322	Disclosure of Nonconformance	✓		
	PERFORMANCE STANDARDS	✓		
2000	Managing the Internal Audit Activity	✓		
2010	Planning	✓		
2020	Communication and Approval	✓		

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R-4 (1C)

Standard Number	III Standard	Generally Conforms	Partially Conforms	Does Not Conform
2030	Resource Management	✓		
2040	Policies and Procedures	✓		
2050	Coordination	✓		
2060	Reporting to Senior Management and the Board	✓		
2070	External Service Provider and Organizational Responsibility for Internal Auditing			Not Applicable
2100	Nature of Work	✓		
2110	Governance	✓		
2120	Risk Management	✓		
2130	Control	✓		
2200	Engagement Planning	✓		
2201	Planning Considerations	✓		
2210	Engagement Objectives	✓		
2220	Engagement Scope	✓		
2230	Engagement Resource Allocation	✓		
2240	Engagement Work Program	✓		
2300	Performing the Engagement	✓		
2310	Identifying Information	✓		
2320	Analysis and Evaluation	✓		
2330	Documenting Information	✓		
2340	Engagement Supervision	✓		
2400	Communicating Results	✓		
2410	Criteria for Communicating	✓		
2420	Quality of Communications	✓		
2421	Errors and Omissions	✓		
2430	Use of "Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing"	✓		
2431	Engagement Disclosure of Nonconformance	✓		

8

Standard Number	III Standard	Generally Conforms	Partially Conforms	Does Not Conform
2440	Disseminating Results	✓		
2450	Overall Opinions	✓		
2500	Monitoring Progress	✓		
2600	Resolution of Senior Management's Acceptance of Risks	✓		
IIA Code of Ethics		✓		
Definition of Internal Auditing		✓		

IV. Appendix B - Independent Validator Statement

I was engaged to conduct an independent validation of the City of Mississauga Internal Audit Division (IAD) activity's self-assessment. The primary objective of the validation was to verify the assertions made in the quality self-assessment report concerning adequate fulfillment of the organization's basic expectations of the internal audit activity and its conformity to The Institute of Internal Auditors' (The IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)*.

In acting as validator, I am fully independent of the City of Mississauga and have the necessary knowledge and skills to undertake this engagement. The validation, conducted during the period October 24th –November 5th, 2012 consisted primarily of a review and testing of the procedures and results of the self-assessment. In addition, interviews were conducted with the Chair of the Audit Committee, five City staff members, and the external auditor.

I concur fully with the IAD's activity's conclusions in the self-assessment report.

Implementation of my recommendations will further improve the effectiveness and enhance the value of the IA activity and ensure its full conformity to the *Standards*.

Lal Balkaran
Independent Validator

November 2012

V.   Appendix C – Observations and Recommendations Summary – Leading Practices

	Current State of the IAD	Observation and Recommendation	Management Response	Rating[1]
1	The Internal Audit charter is comprehensive and contains the key elements to enable the IAD to discharge its mandate. However, it does not fully conform to the IIA QA Manual (6th ed.) model charter and it lacks mention of information technology standards (ISACA Standards) under which IT audits are conducted.	Consider revamping the Internal Audit charter to include the relevant paragraphs under the following headings: Introduction, Role, Professionalism, Authority, Organization, Independence and Objectivity, Responsibility, Internal Audit Plan, Reporting and Monitoring, and Period Assessment. Also, under "Professionalism" consider inserting compliance with ISACA Standards as well.	The Internal Audit Charter is reviewed periodically to ensure that it meets the expectations and requirements of the City. It will be reviewed as recommended and updated where necessary.	Low
2	Working paper files are not currently automated. With the thrust of a paperless environment, and the proliferation of technology, many audit shops are opting for the use of an established working paper software. More and more organizations are moving towards automating their working papers which offer effective audit and management trails and conformance with established standards and frameworks. The audit departments at Calgary and Oshawa use an established automated	An automated working paper system should be introduced. With the focus on a green economy, the thrust of the audit effort should be towards using less paper. Paperless systems can improve the quality and efficiency of internal audits and foster new and creative approaches to auditing, Auditors can review and share audit files even if they are all at different locations. E.g., data can be retrieved from data bases stored on a USB key. The internal audit effort can become more efficient and effective. In fact, many audit departments report that new technologies are	Automation of audit management and working paper system is included in the 2013 to 2016 Corporate Business Plan for Internal Audit. To date, Internal Audit has received a demonstration on one of the automated systems. Research of other systems will be done and municipalities which have adopted these systems will be consulted.	Moderate

P-45)

	Current State of the IAD	Observation and Recommendation	Management Response	Rating [1]
	working paper software.	enabling them to meet or exceed their annual audit plans at less cost. Working paper software conforms to both IIA and ISACA standards and addresses all elements of the end-to-end audit process including quality assurance (QA) and follow-up activities. Moreover, as mentioned earlier, it saves on paper and files are retained electronically. There is also provision for items to be scanned and attached as audit evidence.		
3	A file completion checklist is not currently used in each working paper file. This is a good quality control mechanism commonly used to ensure that all elements of each phase of the audit – planning, fieldwork, and reporting – were indeed completed.	Introduce a file completion checklist to include the following: **Audit Planning** • Scope and Objectives determined; • Risk/Control matrix done; and • Entrance conference held. **Audit Fieldwork** • Audit program executed; • Findings are documented and supported; and • Test are properly carried out. **Reporting** • Draft report discussed with	The audit process is detailed in the Internal Audit Manual and is monitored by the Director of Internal Audit. Nevertheless, a file checklist is a good quality control mechanism and will be introduced.	Moderate

12

	Current State of the IAD	Observation and Recommendation	Management Response	Rating [1]
		management; • Issues in report are properly supported; and • Report has been issued within a reasonable time frame. **Quality Assurance** • Review Notes have been cleared • All working papers have been properly signed off.		
4	There is a comprehensive Audit Policy Manual that has a wealth of information. However, it can even be made better if it is expanded to cover additional internal audit-related material to help guide audit staff members.	The following are examples of areas to be included in the manual: • Audit Universe; • The complete IIA's IPPF; • IT Risk Assessment and Fraud Risk Assessment as part of the overall Risk Assessment; • Types of audit: Operational, Financial, Performance, Information technology, Special Investigations, etc.; • Different groups at the City who perform related work, e.g., the Business Improvement group; • Performance metrics; • IT audit methodology and standards; • CoBIT 5 Framework;	The Internal Audit Manual is updated as necessary. Internal Audit welcomes the examples identified in the Recommendation. These will be reviewed and incorporated into the Manual as appropriate.	Moderate

P-4(5)

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	Current State of the IAD	Observation and Recommendation	Management Response	Rating [1]
		• COSO Framework; and • COSO-ERM Framework.		
5	The IAD currently has its own intranet on the City's website. But it lacks some key information such as links to the IIA-Toronto website, IIA Standards, IAD staff profiles, the audit process, and types of audit undertaken by the IAD. Inclusion of such information will help communicate and lift the profile of the audit effort throughout the City.	The IAD site on the City's intranet should be used as the principal method to communicate the internal audit effort including developments and changes in the profession and related areas to include the following: • IIA *Standards*; • Audit process; • Types of audit; • Staff profiles; • Links to other sites (IIA-Toronto, Audit Net, ISACA, etc.); and • Developments and pronouncements. Soft copies of any relevant seminar handouts, ideas, and journal articles should all be shared by posting these on the site.	Agree that the IA website can be further enhanced. Update to the IA website will be included as part of Internal Audit's continuous improvement initiative.	Low

1. Legend of Rating:

High – Recommended action should be implemented immediately.
Moderate – Recommended action requires management attention and should be implemented within a reasonable time period (180 days).
Low – Recommended action presented for management consideration but not critical to overall process.

City of Mississauga

External Validation of the 2012 Quality Self-Assessment

Maturity Level as determined by the External Validator

Lal Balkaran

November 2012

1

MATURITY MODEL

Where does the Internal Audit Division at the City of Mississauga fit? I would say at "5"

	Maturity	Description
5	Cutting Edge Practices	1. Conforms with leading practices in the industry and with the IIA's IPPF including the IIA *Standards*, industry standards, and other related standards such as ISACA. 2. The Director, Audit and staff members are well respected, knowledgeable, appropriately qualified and highly motivated. 3. Internal Audit is perceived as a key governance mechanism. 4. Full use is made of technological advances to deliver quality audits. 5. Processes exist to adapt to the changing internal auditing and risk landscape.
4	Robust Practices	1. Methodologies and internal audit practices are defined and followed. 2. Standard processes exist and Improvement measures are in place to conform to leading practices. 3. Irregular health-checks of internal audit practices are done and remediation effected where gaps are discovered. 4. Appropriate education and training programs are pursued. 5. Internal audit is a value added effort.
3	Average Practices	1. Basic standards and practices exist and are understood and practiced. 2. Performance metrics are on average. 3. Audit plan is not regularly monitored for coverage. 4. Less than half of staff members are professionally qualified and familiar with established standards. 5. Internal audit is perceived as 'nice to have' and a regulatory requirement rather than a value added effort.
2	Poor Practices	1. Awareness of methodologies exist but is not practiced. 2. Standards exist but are not monitored for compliance. 3. Audit practices are not compared with leading practices. 4. The internal audit effort is non-value added. 5. Staff members are not adequately qualified..
1	Unacceptable Practices	1. Staff is de-motivated and of low morale. 2. There is no importance attached to standards and accepted methodologies 3. Internal audit is taken lightly and not respected. 4. High staff turnover exists. 5. No consistent approach to audit planning, fieldwork, reporting, and follow-up exists.

Memorandum

TO: Audit Committee

FROM: Carmela Radice, Legislative Coordinator

DATE: November 12, 2012

SUBJECT: **Appointment of Chair for Audit Committee Commencing December 1, 2012 until November 30, 2013**

At the Audit Committee meeting on March 7, 2011, Councillor Pat Mullin was appointed as Chair of the committee until November 30, 2012 as per Resolution 0073-2011 adopted at Council on March 30, 2011.

The recommendation reads as follows:

AC-0001-2011
That Pat Mullin be appointed to the office of Chair of the Audit Committee for the term of office to November 30, 2012.
Carried (Jim Tovey)

Therefore, at the Audit Committee meeting on November 19, 2012, the Committee must appoint a Chair. This appointment will commence on December 1, 2012 and end as of November 30, 2013.

Regards,

Carmela Radice
Legislative Coordinator
City of Mississauga
Legislative Services, Office of the City Clerk
905.615.3200 Ext.5426