



**INTERNAL  
AUDIT TEAM**  
**Ontario East**

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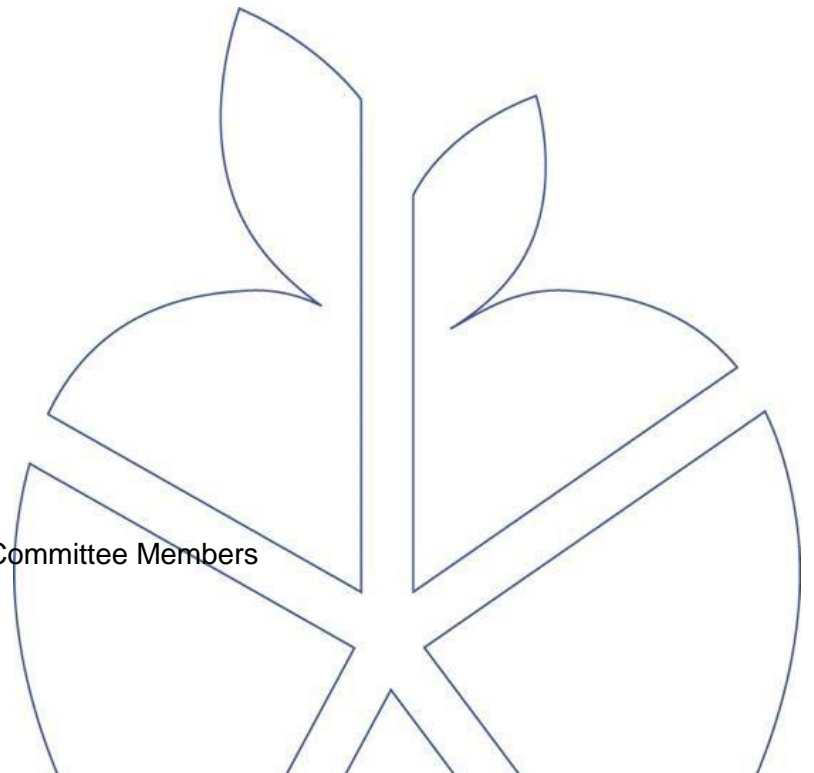
# **Quality Assurance Report Final Report**

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June 18, 2021

**Distribution List:**

Ontario-East District School Boards Audit Committee Members



# Executive Summary

## Introduction

The International Standards for the Professional Practice of Internal Auditing requires that an external quality assessment (QA) of an internal audit activity be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organization. The qualified assessor or assessment team must demonstrate competence in both the professional practice of internal auditing and the QA process. The QA can be accomplished through a full external assessment or a self-assessment with independent validation.

The Regional Internal Audit Manager (RIAM) discussed the form and frequency of the QA, as well as the independence and qualifications of the external assessor or assessment team from outside the organization, including any potential conflicts of interest with the board. Upon presentation of the requirements to the Audit Committee in September 2020, the Regional Internal Audit Team (RIAT) conducted a self-assessment of its internal audit activity (IA) and selected the Institute of Internal Auditors as the qualified, independent external assessor to conduct a validation of RIAT's self-assessment.

## Objectives

- The main objective of the QA was to assess RIAT's conformance with the Standards and the Code of Ethics.
- RIAT also evaluated its effectiveness in carrying out its mission (as set forth in the internal audit charter and expressed in the expectations of Management); identified successful internal audit practices demonstrated by RIAT; and identified opportunities for continuous improvement to enhance the efficiency and effectiveness of the infrastructure, processes, and the value to their stakeholders.
- An external independent assessor validated the results of RIAT's self-assessment. The main focus was to validate the conclusion of RIAT related to conformance with the *Standards* and the Code of Ethics. They also reviewed RIAT observations related to successful internal audit practices and opportunities for continuous improvement. They offered additional observations as they deemed appropriate.

## Scope

- The scope of the QA included RIAT's operations and responsibilities, as set forth in the internal audit mandate and approved by the board.
- The QA concluded on 28 May 2021, and provides senior management and the board with information about RIAT as of that date.

- The Standards and the Code of Ethics in place and effective as of 28 May 2021, were the basis for the QA.

## Methodology

- RIAT compiled and prepared information consistent with the methodology established in the *Quality Assessment Manual for the Internal Audit Activity*. This information included completed and detailed planning guides, together with all supporting documentation; an evaluation summary, documenting all conclusions and observations; and the self-assessment report by the IA.
- RIAT identified key stakeholders (IA staff, senior management and audit committee members) and sent surveys to each individual identified. The results were tabulated by the Institute of Internal Auditors, and THE INSTITUTE OF INTERNAL AUDITORS is to maintain confidentiality in responses. Survey results were shared with RIAT during their self-assessment process.
- Prior to commencement of the on-site validation portion of the RIAT self-assessment, THE INSTITUTE OF INTERNAL AUDITORS held a preliminary meeting with RIAT to discuss the status of preparation of the self-assessment, identification of key stakeholders to be interviewed during the on-site validation, and finalization of logistics related to the QA.
- To validate the objectives, THE INSTITUTE OF INTERNAL AUDITORS reviewed information prepared by RIAT and the conclusions reached in the QA report. THE INSTITUTE OF INTERNAL AUDITORS (IIA) also conducted interviews with selected key stakeholders, including the audit committee chair, senior executives, and IA management and staff; reviewed a sample of audit projects and associated working papers and reports; reviewed survey data received from stakeholders and RIAT management and staff; and prepared diagnostic tools consistent with the methodology established for a QA in the *Quality Assessment Manual for the Internal Audit Activity*.
- The validators from the IIA prepared an “Independent Validation Statement” to document conclusions related to the validation of IA’s self-assessment. This statement is included as Attachment B to this report.

## Conclusion

It is the overall opinion of the IIA that RIAT generally conforms with the Standards and the Code of Ethics.

The ranking of “Generally Conforms” means that an internal audit activity has a charter, policies, and processes that are judged to be in conformance with the Standards and the Code of Ethics. A detailed description of conformance criteria can be found in attachment A.

As a result of this assessment, RIAT will include the mention that “work was conducted in conformance with the International Standards for Professional Practice of Internal Auditing” in its reports going forward.

The detailed report presents the observations, validated by an independent third party as well as an action plan with timeline and status to implement the required changes, where RIAT was found to be in partial conformance or not in conformance (see “Ratings definition” in Attachment A).

### **Limitation on Use of Internal Audit Report**

This report is intended primarily for the information and use of the individuals on the distribution list on the cover page of this report and should not be provided to any other individual without the consent of the Regional Internal Audit Manager, Ontario East Region.

## Detailed Report

RIAT believes that the environment in which we operate is well structured and progressive, where the *Standards* are understood, the Code of Ethics is being applied, and management endeavors to provide useful audit tools and implement appropriate practices. Consequently, our comments and recommendations are intended to build on this foundation.

Observations are divided into three categories:

1. **Successful Internal Audit Practices** – Areas where RIAT is operating in a particularly effective or efficient manner when compared to the practice of internal auditing demonstrated in other internal audit activities. The identification of these practices is intended to provide IA stakeholders with a view on things IA is doing in a leading practice manner when compared to other internal audit activities.
2. **Gaps to Conformance** – Areas identified where RIAT is operating in a manner that falls short of achieving one or more major objectives, and attains an opinion of “partially conforms” or “does not conform” with the *Standards* or the Code of Ethics. These practices will include recommendations for actions needed to be “generally in conformance,” and will include an IA response and an action plan to address the gap.
3. **Opportunities for Continuous Improvement** – Observations of opportunities to enhance the efficiency or effectiveness of RIAT’s infrastructure of processes. These practices do not indicate a lack of conformance with the *Standards* or the Code of Ethics, but rather offer suggestions on how to better align with criteria defined in the *Standards* or Code of Ethics. They may also be operational ideas based on the experiences obtained while working with other internal audit activities. A management response and an action plan to address each opportunity noted are normally included.

## 1. Successful Internal Audit Practices

### Observation

#### GOVERNANCE

- Training of AC members – continue to build on this, as new members come on board.
- RIAT was instrumental in helping the organization establish the foundation for a Strategic Risk Management framework thus contributing to the achievement of key strategic organizational objectives.

#### RIAT STAFF

Staff are viewed by Senior Management and AC members as very competent, professional, courteous, good listeners.

#### RIAT MANAGEMENT

- Surveys conducted by the IIA showed very positive results for 5 out of the 6 groups surveyed
- Great Follow-Up process established, with a concerted effort to clear out old outstanding recommendations that were either obsolete or no longer relevant;
- Use of COSO, COBIT, ISO, NIST frameworks, which RIAT should bring forward in its reports, as part of the audit objectives; and
- Use of IDEA software for continuous auditing (Data Analytics).

#### RIAT PROCESS

- Audit Reports are concise, clear and of very good quality;
- Use of an audit software package for engagements and follow-up (Pentana); and
- Good use of report templates, planning checklists, and IA Manual is very good.

## 2. Gaps to Conformance

### Observations

#### GOVERNANCE

- Partially Conforms (PC) with *Standard 1110 - Organizational Independence*:
  - The RIAT? should report functionally to the AC (on paper as well as in practice); and
  - The Internal Audit Mandate should reflect the specifics of the nature of the functional reporting relationship, including the implementation conditions.

- Does Not Conform (DNC) with *Standard 1111* - Direct interactions with the AC: do not occur
- Partially Conforms with *Standard 1300* - Quality Assurance and Improvement Plan (QAIP):
  - Develop a QAIP that covers all aspects of the RIAT activity (to demonstrate conformance to all Standards and Code of Ethics)
  - **Internal** periodic assessments need to be developed (1311)
  - **External** independent assessments should happen at least every 5 years (1312)
  - Report results of these ongoing and periodic **internal** and **external** assessments to Audit Committee, including Action Plans for improvements identified (1320)

## IA MANAGEMENT

- Partially Conforms with *Standard 2600*: Communication of Risk that states: “When the RIAM concludes that management has accepted a level of risk that may be unacceptable to the organization, the RIAM must discuss the matter with senior management. If the RIAM determines that the matter has not been resolved, he or she communicates the matter to the Audit Committee.”
  - When presenting the Risk Based Audit Plan (RBAP) to the Audit Committee, the RIAM must communicate the residual risks stemming from the gap between the high risk auditable areas identified in the process and the actual engagements that can be done, based on the available resources. This is the distinction between a Risk-Based Audit Plan, and a Resource-Based Audit Plan. The gap represents a risk due to resource limitations and this must be communicated to the Audit Committee.

## 3. Opportunities for Continuous Improvement

### Observations

## GOVERNANCE

Increase access and direct interactions between RIAM and all Audit Committees through:

- Have a one-on-one sit-down or virtual meeting between AC Chair and RIAM - prior to each AC meeting - to go through IA items on agenda or other issues.
- Have regular, private in-camera sessions at the AC meetings – without the presence of management - between the AC members and the RIAM i.e. automatic, standard agenda item – and this would occur, whether you have something to say, or not.

- The organizational Chart must indicate functional reporting relationship of RIAT to the AC. The current organizational chart from the Ottawa Catholic School Board only shows a dotted line (i.e. admin relationship) to its Superintendent of Business Services.
- IA does not have a 'seat at the table': not viewed as part of senior executive cadre or C-suite.
- IA Mandate: strengthen definition of consulting engagements. e.g. Procurement Data Analytics 'Review' is an Advisory/Consulting engagement.

### Action Plan

<p><b>1110 - Organizational Independence:</b></p> <p>(a) Update the mandate to reflect the functional reporting relationship to the AC, by including the following examples:</p> <ul style="list-style-type: none"> <li>• Approving the internal audit charter.</li> <li>• Approving the risk-based internal audit plan.</li> <li>• Receiving communications from the RIAM on the internal audit activity's performance relative to its plan and other matters.</li> <li>• Making appropriate inquiries of management and the RIAM to determine whether there are inappropriate scope or resource limitations.</li> </ul> <p>(b) Update the organizational chart to reflect the functional reporting relationship to the AC.</p>	<p><b>Timeline:</b> September 2021</p> <p><b>Status:</b> In Progress</p>
<p><b>1111 - Direct interaction with the AC:</b></p> <p>a) Offer AC chairs to have a short meeting prior to each AC meeting to go through RIAT items on agenda or other issues.</p> <p>b) Communicate to the AC chairs the requirement to have a regular, private in-camera session at AC meetings without the presence of management between the AC members and the RIAT as an automatic, standard agenda item AND, where in place, to exercise it. <i>This has already been implemented at 2/9 of the Ontario-East district school boards in 2020-21. The standing item is also in place at another 2/9 but is not exercised.</i></p> <p>c) Reach out to each AC chair to seek input into the annual and multi-year plan. <i>This has already been implemented in 2020-21 for the upcoming 2021-22 plan and out-years.</i></p>	<p><b>Timeline:</b> September 2021</p> <p><b>Status:</b> In Progress</p>

<p><b>1300 - Quality Assurance and Improvement Plan:</b></p> <p>a) 1311 – Internal Assessment:</p> <ul style="list-style-type: none"> <li>• Send one staff for training on conducting periodic internal assessments. <i>This has been implemented in June 2021.</i></li> <li>• Set up a spreadsheet with the results of the 2021 QAIP.</li> <li>• Set up a task to perform the review in the summer of 2022.</li> </ul> <p>b) 1312 – External Assessment:</p> <ul style="list-style-type: none"> <li>• Set up a reminder to perform an External Assessment in 5 years, during the school year 2025-26.</li> </ul> <p>c) 1320 – Reporting on the QAIP:</p> <ul style="list-style-type: none"> <li>• Report on the results and action plan in the annual report to AC each September.</li> </ul>	<p><b>Timeline:</b> August 2022</p> <hr/> <p><b>Status:</b> In Progress</p>
<p><b>2600 – Communication of Risk</b></p> <p>a) Formalize, in the Mandate, the dispute resolution process and communication to AC when there is a disagreement with Management on the risk acceptance level.</p> <p>b) Communicate the effect on the Risk Based Annual Plan (RBAP) of the level of resources, where and if applicable, prior to requesting the approval of the plan.</p>	<p><b>Timeline:</b> September 2021</p> <hr/> <p><b>Status:</b> In Progress</p>
<p><b>Opportunities for improvement:</b></p> <p>a) Update the mandate to include the term “Review” as meaning “Consulting”.</p> <p>b) Formalize the Ontario-East RIAT strategy and objectives.</p> <p>c) Continue training AC members on Ontario Regulation 361/10 and emerging risks.</p> <p>d) Reference frameworks used during audits (i.e. IPPF, COSO, COBIT, ISO, NIST, etc...).</p>	<p><b>Timeline:</b> September 2021 for items a) and b) Ongoing for c) and d).</p> <hr/> <p><b>Status:</b> In Progress</p>

## Attachment A – Evaluation Summary and Rating Definitions

	GC	PC	DNC
Overall Evaluation	X		

Attribute Standards (1000 through 1300)		GC	PC	DNC
1000	Purpose, Authority, and Responsibility	X		
1010	Recognizing Mandatory Guidance in the Internal Audit Charter	X		
1100	Independence and Objectivity	X		
1110	Organizational Independence		X	
1111	Direct Interaction with the Board			X
1112	Chief Audit Executive Roles Beyond Internal Auditing	X		
1120	Individual Objectivity	X		
1130	Impairment to Independence or Objectivity	X		
1200	Proficiency and Due Professional Care	X		
1210	Proficiency	X		
1220	Due Professional Care	X		
1230	Continuing Professional Development	X		
1300	Quality Assurance and Improvement Program		X	
1310	Requirements of the Quality Assurance and Improvement Program	X		
1311	Internal Assessments		X	

1312	External Assessments		X	
1320	Reporting on the Quality Assurance and Improvement Program		X	
1321	Use of “Conforms with the <i>International Standards for the Professional Practice of Internal Auditing</i> ”	N/A		
1322	Disclosure of Nonconformance	N/A		

Performance Standards (2000 through 2600)		GC	PC	DNC
2000	Managing the Internal Audit Activity	X		
2010	Planning	X		
2020	Communication and Approval		X	
2030	Resource Management	X		
2040	Policies and Procedures	X		
2050	Coordination and Reliance	X		
2060	Reporting to Senior Management and the Board	X		
2070	External Service Provider and Organizational Responsibility for Internal Auditing	X		
2100	Nature of Work	X		
2110	Governance	X		
2120	Risk Management	X		
2130	Control	X		
2200	Engagement Planning	X		
2201	Planning Considerations	X		
2210	Engagement Objectives	X		

2220	Engagement Scope	X		
2230	Engagement Resource Allocation	X		
2240	Engagement Work Program	X		
2300	Performing the Engagement	X		
2310	Identifying Information	X		
2320	Analysis and Evaluation	X		
2330	Documenting Information	X		
2340	Engagement Supervision	X		
2400	Communicating Results	X		
2410	Criteria for Communicating	X		
2420	Quality of Communications	X		
2421	Errors and Omissions	N/A		
2430	Use of "Conducted in Conformance with the <i>International Standards for the Professional Practice of Internal Auditing</i> "	N/A		
2431	Engagement Disclosure of Nonconformance	N/A		
2440	Disseminating Results	X		
2450	Overall Opinions	N/A		
2500	Monitoring Progress	X		
2600	Communicating the Acceptance of Risks		X	

Code of Ethics		GC	PC	DNC
	Code of Ethics	X		

## Rating Definitions

**GC – “Generally Conforms”** means that the assessor or the assessment team 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 of the individual standard or elements of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformity to a majority of the individual standard or element of the Code of Ethics and at least partial conformity to the others within the section/category. There may be significant opportunities for improvement, but these should not represent situations where the activity has not implemented the *Standards* or the Code of Ethics and has not applied them effectively or has not achieved their stated objectives. As indicated above, general conformance does not require complete or perfect conformance, the ideal situation, or successful practice, etc.

**PC – “Partially Conforms”** means that the assessor or assessment team has concluded that the activity is making good-faith efforts to comply with the requirements of the individual standard or elements of the Code of Ethics, or a section or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the *Standards* or the Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the internal audit activity and may result in recommendations to senior management or the board of the organization.

**DNC – “Does Not Conform”** means that the assessor or assessment team has concluded that the internal audit activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many or all of the objectives of the individual standard or element of the Code of Ethics, or a section or major category. These deficiencies will usually have a significantly negative impact on the internal audit activity’s effectiveness and its potential to add value to the organization. These may also represent significant opportunities for improvement, including actions by senior management or the board.

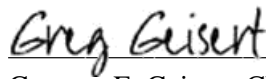
The Validator was engaged to conduct an independent validation of the Regional Internal Audit Team of East Ontario (IA) activity's self-assessment. The primary objective of the validation was to verify the assertions made in the attached quality self-assessment report concerning adequate fulfillment of the organization's basic expectations of the IA activity and its conformity to The Institute of Internal Auditors' (The IIA's) *International Standards for the Professional Practice of Internal Auditing (Standards)*. Other matters that might have been covered in a full independent assessment, such as an in-depth analysis of successful practices, governance, consulting services, and use of advanced technology, were excluded from the scope of this independent validation by agreement with the chief audit executive (CAE).

In acting as Validator, I am fully independent of the organization and have the necessary knowledge and skills to undertake this engagement. The validation, conducted from virtually from Ottawa, consisted primarily of a review and testing of the procedures and results of the self-assessment. In addition, interviews were conducted with a Director of Education, Chairs of Audit Committees, Superintendents of Business Services and Manager who were the subject of an audit.

We concur with the IA activity's conclusions in the self-assessment report attached. Implementation of all the recommendations contained in the self-assessment report will improve the effectiveness and enhance the value of the IA activity and ensure its full conformity to the *Standards*.



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