
External Quality Assurance Review of the Office of the Auditor General

Proposed Statement of
Work for the Audit Sub-
Committee

City of Ottawa

Proposed Statement of Work

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Submitted by:

PricewaterhouseCoopers LLP, 99 Bank Street, Suite 800, Ottawa, Ontario K1P 1E4

Contact person: Lynda Dawson

Phone: 613-782-2991 Fax: 613-237-3963

E-mail: lynda.dawson@ca.pwc.com

Important

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1. Our Understanding of the Requirements

In 2004, the City of Ottawa (the “City”) established a framework which resulted in the creation of an Auditor General position for the City of Ottawa. The Auditor General was further authorized to establish an Office of the Auditor General (the “Office of the Auditor General” or “OAG”). This framework consisted of a Statute and Mandate as well as a By-Law. From the creation of the position through 2010, the Auditor General has reported to City Council through the Corporate Services and Economic Development Committee. Since 2010, the Auditor General reports to Council via the Audit Sub-Committee of the Finance and Economic Development Committee.

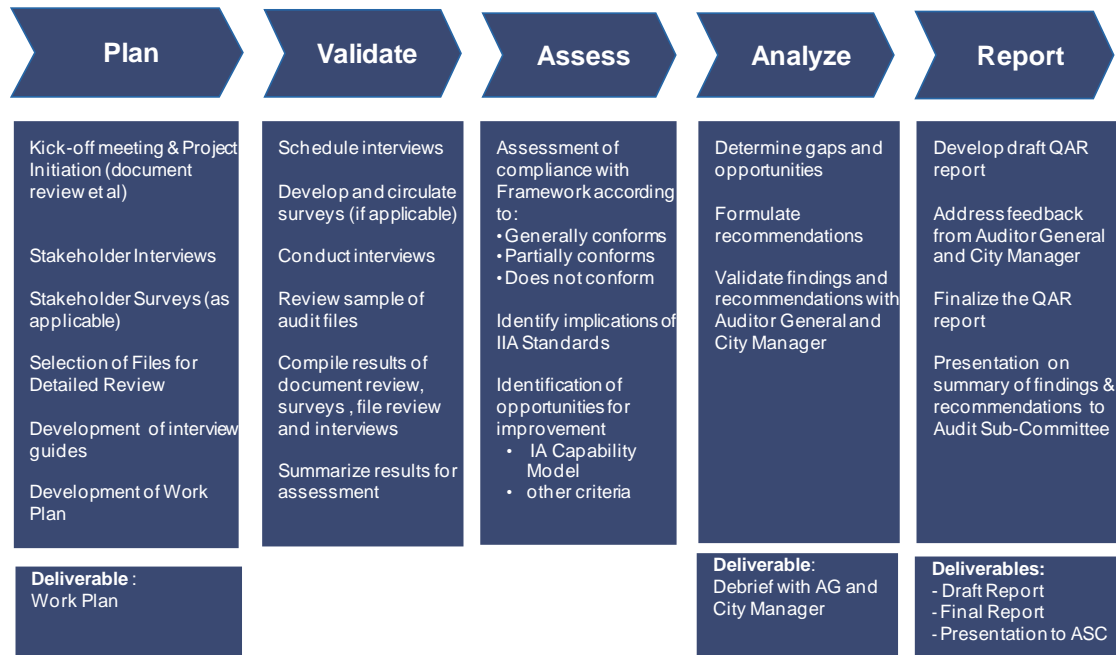
In response to an increased focus on effective governance, the Audit Sub-Committee (ASC) has requested that the City Manager secure an external quality assurance review (QAR) of the OAG operations. It has been agreed that PwC will report to Audit Sub-Committee on this QAR and will work jointly with the Auditor General and the City Manager to facilitate delivery of this independent review.

We understand that the Audit Sub-Committee expects this external quality assessment to be performed by an independent professional services firm to deliver three key objectives, namely to:

1. Assess the OAG against the duties and other requirements established within the framework (Statute, Mandate and By-Law) which originally created the position of Auditor General in 2004;
2. Identify and map those additional activities or other changes, if any, that would be required to support the OAG’s conformance with the Institute of Internal Auditors (IIAs) Auditing Standards and Code of Ethics; and
3. Identify opportunities, offer recommendations for improvement and provide counsel to the Auditor General and his Staff for improving the effectiveness and efficiency of the OAG.

2. Our Approach

PwC will take a strategic approach to this QAR that will address each of the three objectives described earlier. The following diagram summarizes the methodology that we propose to use for this external QAR.



PwC's QAR methodology is designed to meet the needs of the City, while still independently ensuring alignment with the Auditor General's requirements under the Statute, By-Law and Mandate and identifying the implications of IIA Standards.

As outlined in the diagram above, the QAR methodology consists of five key phases, which are each described in more detail below.

1.1 Planning Phase

1.1.1 Kick-Off Meeting & Project Initiation

To begin the external QAR, we will conduct a kick-off meeting with the Auditor General and City Manager. The purpose of this kick-off meeting will be to confirm our understanding of expectations for the QAR including:

- Review of the objectives and scope of the QAR;
- Review timelines and format for deliverables;
- Agree on format of ongoing status updates and project management activities; and
- Preliminary identification of key stakeholders to be interviewed and background documents to be assembled.

Background documentation that may be considered to be provided during the planning phase could include:

- Current Statute, Mandate and By-Law governing the roles and requirements associated with the Auditor General;
- OAG organization chart;
- Audit operating manuals/audit policies and procedures;
- Most recent audit risk assessment and annual audit plan;
- Recent audit reporting to the City Council and/or Council Committees, including any reporting related to performance of the OAG;
- Stakeholder/auditee surveys, if available; and
- Listing of completed audit engagements, by group/ audit manager.

Once the project team has reviewed the available background materials, we will schedule a process walk-through of the audit process (by audit type), which will ensure efficiency in the review of the audit files and will further allow the project team to identify any process, practice improvement opportunity, as compared to leading practice, with an effort to increase efficiency and effectiveness of the audit approach.

1.1.2 Stakeholder Interviews

As part of the planning phase, the project team will work with the Auditor General and City Manager, (or designates – *this applies throughout this section*), to identify key stakeholders that will be independently selected for interviews as part of the QAR validation phase. We typically interview executive management (i.e. the Mayor, a sample of City Councillors, City Manager, and key members of the City Manager’s Office, City Operations Portfolio and Infrastructure Services & Community Sustainability Portfolio), the Auditor General and OAG staff/management. Within the OAG, we will select representation across the levels to gain perspective of individuals, based on experience and role.

Once the stakeholders have been identified, we will develop the interview guides. Once the interviews have been scheduled and confirmed, we will provide the interviewee with an advanced copy of the interview guide for preparation purposes.

1.1.3 Stakeholder Surveys (as applicable)

At the planning phase, we will work with the Auditor General and City Manager to identify the merits of using a survey to solicit information from stakeholders. A survey is an efficient approach to gain a broader perspective of the OAG across a range of stakeholders. In the event a survey is not considered necessary, we will obtain the requisite information via stakeholder interviews (per 1.1.2 above).

1.1.4 Selection of Files for Detailed File Review

The PwC project team will independently select audits for which the project planning process, working papers and reporting process will be performed. The PwC project team will select a sample of audits completed since 2005 and will aim to cover a cross-section of audit team members. Where engagements have been contracted out, a selection of files conducted by sub-contractors will be included in the sample to obtain a broad perspective of work performed.

1.1.5 Development of Work Plan

Based on the results of the planning phase, the project team will provide the Auditor General and City Manager with an overall work plan for the QAR, which will highlight the project scope and objectives, provide the detailed timelines for completion of key milestones, outline the format of deliverables as agreed and provide the details of the ongoing liaison and communication between the PwC project team and the Auditor General and City Manager. The approach outlined in the work plan will include the finalized listing of interviewees, survey stakeholders and audit files to be reviewed. In addition, the final interview guides, survey questionnaires and documentation templates will be attached as appendices to the final work plan.

1.2 Validation Phase

Interviews, surveys and observation will comprise the primary means to gather information from the OAG's stakeholders. This information helps us to evaluate the alignment of stakeholder expectations and perceptions with the actual role, activities, working practices, organization and capabilities of the OAG. Information gathered in the interviews and surveys will provide the key input to understanding and evaluating the Auditor General function and the perceived effectiveness of its processes.

Based on information provided during the planning phase of the engagement, we will identify preliminary value drivers and opportunities for improvement of efficiency and effectiveness of the OAG, for validation by stakeholders. This may include results of satisfaction surveys, performance metrics and capability/training information within the OAG.

In order to obtain a more comprehensive perspective of the Auditor General function, it will be important to interview (and survey if applicable) OAG personnel. This information will yield additional insight into the processes by which the OAG executes its responsibilities, including those relating to the effectiveness of the quality assurance and improvement program.

Based on the customized interview guides, the interviews will be scheduled, confirmed and conducted to identify:

- Stakeholder needs and expectations;
- Risks;
- Expectations of the OAG's role; and
- Evaluation of the OAG's current performance against expectations.

The results of each interview will be fully documented and provided back to the interviewee for validation, if requested. We will utilize our internal "stakeholder interview themes" template to summarize and analyze the results of the interviews.

Additional details of this phase, including the selection of a sample of audit files and review thereof will be provided in the Work Plan.

1.3 Assessment Phase

During this assessment phase, three major assessments will be completed:

- Assessment against the Framework (statute and mandate as well as the By-law) which established the Auditor General role;
- Identification and mapping of those additional activities or other changes, if any, that would be required to support the OAG's conformance with the IIA's Auditing Standards and Code of Ethics; and
- Identification of opportunities for improvement including the effectiveness and efficiency of OAG processes and practices.

1.3.1 Assessment of Compliance with the Framework which Established the Auditor General

Key activities which will be included in this phase are as follows:

- Review Council/Committee minutes, resolutions and related materials relevant to the framework which originally established the Auditor General role within the City and confirm the requirements established by the framework.
- Analyze the key requirements set out by the enabling Statute and By-Law as well as any other direction provided by Council/Committees into common themes such as:
 - Independence
 - Responsibility for planning and carrying out audits
 - Budget/fiscal responsibilities and/or limitations; and
 - Reporting requirements.
- Based on information gathered through documentation review, interview/survey and review of audit files, assess the activities of the OAG against these requirements.
- For each requirement, the assessment will be in accordance with one of three criteria: a) generally conforms; b) partially conforms; or c) does not conform.

1.3.2 Identify Implications of IIA Standards

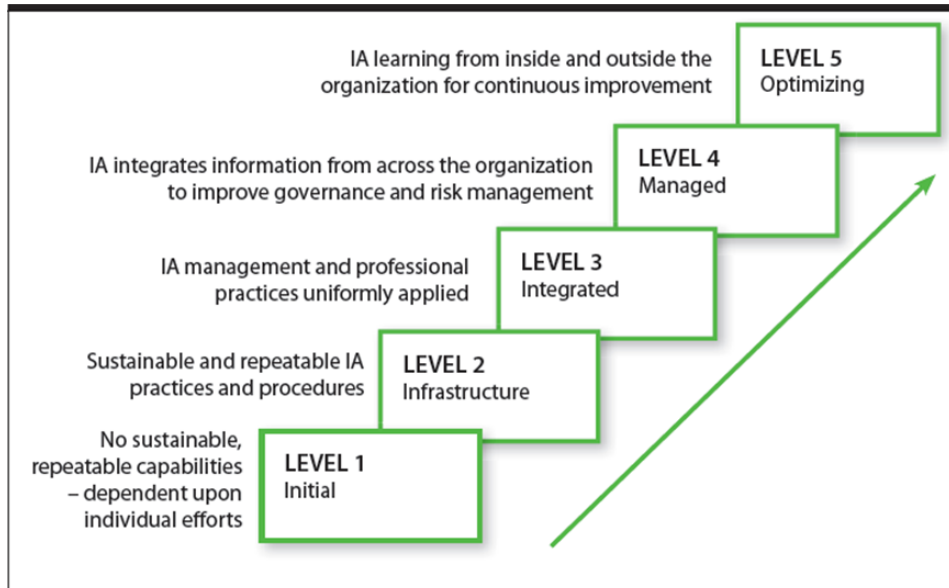
Based on the information gathered, the PwC project team will map the OAG's activities and attributes against IIA Standards and Code of Ethics. To the extent additional activities or changes would be required for the OAG to fully conform to IIA Standards and the Code of Ethics, these additional items will be identified and documented for follow-up.

1.3.3 Identification of Opportunities for Improvement

Building on the information gathered to assess compliance against the original framework as well as comparison of OAG activities to IIA Standards, PwC will compare the OAG against relevant best practices including those identified within the **Internal Audit Capability Model for the Public Sector** and **PwC's Global Best Practices**. While we appreciate these tools are specifically tailored to an internal audit (IA) model rather than an auditor general model, we believe they are still appropriate in helping identify areas where incremental changes would improve the overall efficiency of the OAG's audit process and the effectiveness of the outputs of this process. Below is a description of the tools PwC will use to identify opportunities for improvement.

The IIA's Internal Audit Capability Model for the Public Sector

To assess the current state of the OAG's effectiveness and value-add proposition, the IIA's Internal Audit Capability Model (IA-CM) will be used to assess opportunities to enhance the effectiveness of the OAG practices and processes as applicable. The IA-CM is a universal model developed by the IIA Research Foundation to provide comparability around principles, practices and processes that can be applied globally to improve the effectiveness of auditing in the Public Sector. The IA-CM is a framework for strengthening or enhancing auditing which has been organized into five progressive capability levels as demonstrated below:



Each of the five levels describes the characteristics and capabilities of an audit function. Across each of the five capability levels, there are six essential elements that were identified for an internal audit function:

1. Services and Role of Internal Auditing;
2. People Management;
3. Professional Practices;
4. Performance Management and Accountability;
5. Organizational Relationships and Culture; and
6. Governance Structures.

In addition, each of the five capability levels contains key process areas that are associated with the six elements of auditing. We will conduct an assessment of the OAG's effectiveness using the knowledge gained from the detailed procedures performed and estimate the OAG's current level of capability/ maturity for each of the six elements of auditing using the key process areas as a guideline.

PwC's Global Best Practices™

Often organizations seek to incorporate best practices in structure, approach and practices of the audit function as part of the overall external QAR. As such, this has been incorporated into our overall QAR methodology to identify opportunities for implementation of best practices into the OAG.

Incorporated within PwC's Global Best Practices™ (GBP) database is a tool that we have developed specifically for assessing audit functions. This database is maintained as a source of best practices across various industries around the world and can be used to benchmark the OAG in relevant areas.

Finally, when considering best practices, we will **draw on our project team's deep audit experience in the public sector** to identify opportunities to improve the OAG's processes and practices.

1.4 Analysis Phase

During the analysis phase, we will summarize the results of the assessment and evaluate potential recommendations. More specifically, the PwC project team will complete the following key steps.

1.4.1 Determine gaps in performance and opportunities for improvement

The project team will determine where, if any, the OAG does not meet the requirements established in the framework which created the Auditor General role. This will be achieved by reviewing each requirement and considering how well the OAG is complying with both the spirit and the letter of the requirement – based on the assessment and ratings criteria outlined above.

We will further analyze the results of the comparison against IIA Standards and the Code of Ethics to identify what changes or additional activities, if any, would be required to fully comply with these IIA requirements.

Finally we will review the results of the comparison to best practices and any other identified opportunities for improvement related to the efficiency and effectiveness of the OAG's processes and practices.

1.4.2 Formulate recommendations for enhancement

Based on the gaps and opportunities identified above, the PwC project team will begin to formulate preliminary recommendations for improvement. The recommendations will focus on the root causes of any gaps identified and/or opportunities for improvement. The identification of those underlying causes might identify larger issues for the function (e.g. Human Resources, structure).

1.4.3 Validate findings and recommendations

A formal debriefing session will be scheduled and conducted with the Auditor General and City Manager, and ASC Chair and Vice-chair on the results of the QAR to validate the findings and recommendations being developed. A slide deck summarizing the results will be the basis of the debriefing session to ensure the accuracy of the findings and the appropriateness of the recommendations.

1.5 Reporting Phase

Once the results of the QAR have been presented and discussed with the Auditor General and City Manager, the project team will develop the draft QAR report. The primary objective in this phase will be to ensure that the results are communicated in a manner that is accurate, clear, concise and

timely. The deliverable will include an assessment of the OAG's compliance with the original framework (statute, mandate and by-law) and provide a synopsis of the changes/additional activities, if any, required to fully conform with IIA Standards.

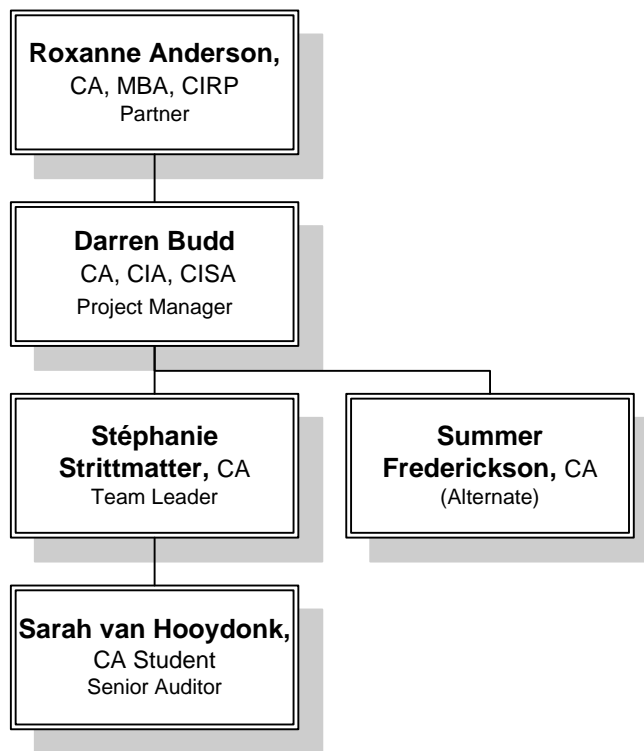
In addition, we will provide strategic recommendations and opportunities to improve the efficiency and effectiveness of the OAG's processes and practices. The Draft Report will be in a format suitable for presentation to the Audit Sub-Committee and will provide a written evaluation that clearly addresses each of the three objectives of this QAR.

The Draft report will be submitted for review by the Auditor General, City Manager and ASC Chair and Vice-chair and PwC will incorporate any feedback into the report prior to finalization and presentation to the Audit Sub-Committee.

3. The PwC Team

We have assembled a team of highly qualified and experienced auditors to complete the external QAR, on behalf of the City. Our project team has been specifically selected based on their experience and expertise conducting QARs, quality assurance engagements and strong core audit skills. All team members have recent experience in the completion of QAR related activities on behalf of a wide range of clients. Please see **Appendix A** for Detailed Resumes of each team member.

Below is the team structure:



Below are brief biographies of each resource.

Roxanne Anderson, CA, MBA, CIRP is the managing partner of PwC in Ottawa. Roxanne has been the partner on a number of QAR and related quality assurance engagements performed on behalf of the private sector and Federal government clients. Roxanne's primary responsibility will be to ensure our Firm's quality assurance practices are engaged, to work with the Project Manager to ensure the quality of all deliverables and to ensure PwC continuously meets the City's high expectations for service delivery.

Darren Budd, CIA, CISA, CA is a Senior Director and is the leader of PwC Ottawa's Internal Audit, Risk and Control team. In addition to having over 10 years of internal audit experience, Darren has completed internal audit Quality Assurance Reviews, readiness assessments and quality assurance engagements for private companies and a number of Federal Government departments. As the Project Manager, Darren will be responsible to ensure the timeliness and quality of project

delivery throughout. He will regularly liaise with the Partner and the field team and will oversee all phases of the assessment including interviews with senior level personnel.

Stéphanie Strittmatter, CA is a fully-bilingual Manager in the Internal Audit, Risk and Controls team in Ottawa with over 5 years of audit experience. During this time, Stéphanie has been responsible for the planning, execution, and completion of a range of engagements in varying industries. In addition, she has been responsible for the assessment of controls, risks and processes and providing recommendations for improvements. Stéphanie will participate in all phases of the QAR, including conducting interviews with senior level personnel, prepare/review all project deliverables/project status updates and participate in all formal briefing/update sessions with the Auditor General and City Manager.

Summer Frederickson, CA is a Manager in the Internal Audit, Risk and Controls practice in Ottawa with over 5 years of audit experience. Over the past two years, Summer has acted in the role of Team Lead for four full-scope QARs and has participated in the conduct of various QARs, readiness assessments and other quality assurance engagements. Summer is the alternate Team Leader and will act in that role as required to meet the City's timelines.

Sarah van Hooydonk, CA Student (CA expected in Oct-11) is an experienced Associate in the Internal Audit, Risk and Controls team in Ottawa with over 3 years of audit experience. Sarah has worked on a number of internal and external audit engagements with PwC including several engagements in the public sector. As a Senior Auditor on this external QAR project, Sarah will support Stéphanie and Darren in the completion of the detailed file review, review of documentation, conduct of stakeholder interviews, analysis of results and development of draft and final deliverables.

4. Budget and Invoicing Schedule

Our price for professional services to complete the work described herein is **\$52,185** plus HST, based on an estimated level of effort to complete the required tasks.

We propose invoicing you based on engagement deliverables as follows:

Deliverable	Estimated Timelines	% of Total Professional Fees
Work plan	June 3, 2011	20%
Summary of Preliminary Findings	July 8, 2011	40%
Debrief with AG & City Manager (to discuss Preliminary Findings)	Week of July 11, 2011	0%
Draft QAR Report	July 29, 2011	20%
Final QAR Report	August 26, 2011	20%
Presentation to Audit Sub-Committee	tbd	0%

Assumptions

- The project will kick off in early June 2011;
- All procedures will be completed in the National Capital Region or via telephone interview, as necessary;
- The Auditor General and/or City Manager will identify relevant stakeholders and help coordinate interviews;
- We will complete 8-12 one-hour interviews;
- We will review a sample of 7-8 audit working paper files:
 - Complete audit working paper files will be provided to us, will be assessed as presented; and
 - Follow-up on outstanding documentation will be the responsibility of the City.
- The amount of documentation to be reviewed will be limited to key documents available and agreed upon during the planning phase;
- Assessment and analysis of compliance issues previously identified by the City will not be subject to detailed validation;
- The QAR report will be in MS PowerPoint or similar format suitable for presentation to the Audit Sub-Committee;
- All deliverables will be presented in English only and will be subject to a maximum of 2 iterations; and
- Access to documentation (audit methodologies, audit charters, policies, etc.) and the City's personnel and turnaround time for review of draft deliverables will be sufficient to achieve the estimated project duration described above.

Appendix A – Detailed Team Resumes
