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# Auditor General Report Regarding Council's Alignment with IIA Essential Conditions

## Report

08.31.2025

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Office of the Municipal Auditor General,  
The Corporation of the City of Windsor

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## Essential Conditions of Governance<sup>1</sup>

This section outlines the Institute of Internal Auditors' (IIA) *Essential Conditions*—non-negotiable governance and management supports that must be in place for an Auditor General function to fully comply with the 2024 *Global Internal Audit Standards*. These conditions are embedded within **Domain III: Governing the Internal Audit Function** and are critical to the independence, authority, and effectiveness of the Auditor General's work.

As the **Board equivalent** under these Standards, the City Council holds specific responsibilities for ensuring the conditions are met. Many of these requirements cannot be fulfilled by the Auditor General alone—they require active oversight, sponsorship, and collaboration by Council and senior leadership. This section provides the benchmark against which current practices have been assessed in the following pages.

### What Are the IIA's Essential Conditions?

The Essential Conditions are a set of mandatory activities and supports provided by the City Council, or Audit Committee, and Senior Management that are necessary to enable a fully effective internal audit or Auditor General function. They are designed to ensure a strong foundation, enabling the function to fulfill its purpose of providing independent, risk-based, and objective assurance, advice, insight, and foresight.

These conditions include, but are not limited to:

1. **Council Authorization of the Internal Audit Mandate** – Approving and safeguarding the Auditor General's charter, scope, and authority.
2. **Ensuring Organizational Independence** – Maintaining reporting relationships and structures that protect the Auditor General from undue influence and conflicts of interest.
3. **Oversight of the Auditor General's Function** – Engaging in regular interaction, reviewing and approving plans, budgets, and resources, and ensuring quality assurance processes are in place.
4. **Unrestricted Access** – Supporting operational arrangements that allow the Auditor General access to all necessary data, records, information, personnel, and locations.
5. **Active Support from Senior Leadership** – Collaborating with administration to operationalize the conditions and ensure ongoing compliance with professional standards.

### Council's Role in Meeting the Essential Conditions

As the governing body, Council's responsibilities in fulfilling these conditions include:

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<sup>1</sup> The Institute of Internal Auditors. (2024). *Global Internal Audit Standards*. Domain III: Governing the Internal Audit Function. Retrieved August 13, 2025, from <https://www.theiia.org/en/standards/2024-global-internal-audit-standards/>

- **Visible Sponsorship** – Championing the Auditor General function publicly and internally to reinforce its mandate and independence.
- **Mandate and Resourcing Decisions** – Approving the Auditor General’s charter, work plan, budget, and resource allocations.
- **Direct Engagement** – Meeting regularly and privately with the Auditor General to discuss sensitive matters without senior management present.
- **Governance and Risk Oversight** – Seeking integrated, organization-wide perspectives on governance, risk management, and control effectiveness.
- **Quality Assurance Commitment** – Ensuring external quality assessments are conducted at least once every five years by independent, qualified assessors, with results reported directly to Council.



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## Assessment of the Essential Conditions of Governance

The following assessment evaluates City Council's alignment with the IIA's Essential Conditions as outlined in **Domain III: Governing the Internal Audit Function** of the *Global Internal Audit Standards*.


Each Essential Condition reflects a governance responsibility where Council, as the Board-equivalent under the Standards, has a direct or shared role in ensuring compliance.

### Rating System:

-  **Met** – Current practice meets the Essential Condition, or existing plans in place are expected to meet the requirement.
-  **Focus Area** – Partial or non-compliance with the Essential Condition. These are linked to findings and risks in the “Essential Condition Non-Compliance Risks and Recommendations” section.
- **NA** – Not applicable to the City's current governance structure or mandate.

### Council's Role in the Assessment:

Each numbered Essential Condition in the table:









- Describes a specific governance expectation under the Standards.
- Indicates whether Council's current practice fulfills the expectation.
- Where a  appears, it signals that Council action or procedural adjustment is required to close a compliance gap.
- The “Finding Reference/Note” column links directly to numbered findings in the later section, allowing Council to easily connect the observed gap to the related risk and recommendation.











### Using this Assessment:









This table should be read as both a compliance checklist and a governance improvement tool. It not only documents current alignment with the Standards but also highlights areas where Council can strengthen:










- Oversight and sponsorship of the Auditor General's work
- Access, independence, and resource safeguards
- Integration of governance, risk, and control oversight
- Commitment to quality assurance and external validation







## Essential Elements Assessment - City Council

| # | Essential Condition  | Assessment  | Finding Reference/Note |
|---|--|---|------------------------|
| 1 | Discuss with the chief audit executive and senior management the appropriate authority, role, and responsibilities of the internal audit function.   |    |                        |
| 2 | Approve the internal audit charter, which includes the internal audit mandate and the scope and types of internal audit services.  |    |                        |
| 3 | Discuss with the chief audit executive and senior management other topics that should be included in the internal audit charter to enable an effective internal audit function.  |    |                        |
| 4 | Approve the internal audit charter.  |    |                        |
| 5 | Review the internal audit charter with the chief audit executive to consider changes affecting the organization, such as the employment of a new chief audit executive or changes in the type, severity, and interdependencies of risks to the organization. |   |                        |
| 6 | Champion the internal audit function to enable it to fulfill the Purpose of Internal Auditing and pursue its strategy and objectives.  |  |                        |
| 7 | Work with senior management to enable the internal audit function's unrestricted access to the data, records, information, personnel, and physical properties necessary to fulfill the internal audit mandate.   |  |                        |
| 8 | Support the chief audit executive through regular, direct communications.  |  |                        |

| #  | Essential Condition   | Assessment  | Finding Reference/Note                              |
|----|---|---|---|
| 9  | Demonstrate support by:   |   |   |
| 9a | – Specifying that the chief audit executive reports to a level within the organization that allows the internal audit function to fulfill the internal audit mandate.   |    | -   |
| 9b | – Approving the internal audit charter, internal audit plan, budget, and resource plan.   |    |   |
| 9c | – Making appropriate inquiries of senior management and the chief audit executive to determine whether any restrictions on the internal audit function’s scope, access, authority, or resources limit the function’s ability to carry out its responsibilities effectively. |    |   |
| 9d | – Meeting periodically with the chief audit executive in sessions without senior management present.  |    | Finding #1 – Private sessions with Auditor General  |
| 10 | Establish a direct reporting relationship with the chief audit executive and the internal audit function to enable the internal audit function to fulfill its mandate.  |  |   |
| 11 | Authorize the appointment and removal of the chief audit executive.   |  |   |
| 12 | Provide input to senior management to support the performance evaluation and remuneration of the chief audit executive.   |  |   |
| 13 | Provide the chief audit executive with opportunities to discuss significant and sensitive matters with the board, including meetings without senior management present.   |  | Finding #1 – Private sessions with Auditor General  |
| 14 | Review the requirements necessary for the chief audit executive to manage the internal audit function, as described in Domain IV: Managing the Internal Audit Function.   |  | Finding #2 – Resourcing of Auditor General function |
| 15 | Approve the chief audit executive’s roles and responsibilities and identify the necessary   |  |   |

| #   | Essential Condition  | Assessment  | Finding Reference/Note                    |
|-----|--|---|---|
|     | qualifications, experience, and competencies to carry out these roles and responsibilities.  |   |   |
| 16  | Engage with senior management to appoint a chief audit executive with the qualifications and competencies necessary to manage the internal audit function effectively and ensure the quality performance of internal audit services. |    |   |
| 17  | Communicate with the chief audit executive to understand how the internal audit function is fulfilling its mandate.  |    |   |
| 18  | Communicate the board's perspective on the organization's strategies, objectives, and risks to assist the chief audit executive with determining internal audit priorities.  |    |   |
| 19  | Set expectations with the chief audit executive for:   |  |   |
| 20  | – The frequency with which the board wants to receive communications from the chief audit executive.   |  |   |
| 20a | – The criteria for determining which issues should be escalated to the board, such as significant risks that exceed the board's risk tolerance.  |  |   |
| 20b | – The process for escalating matters of importance to the board.   |  |   |
| 20c | Gain an understanding of the effectiveness of the organization's governance, risk management, and control processes based on the results of internal audit engagements and discussions with senior management.                       |  | Finding #3 - Integrated GRC understanding |

| #  | Essential Condition  | Assessment  | Finding Reference/Note                              |
|----|--|---|---|
| 21 | Discuss with the chief audit executive disagreements with senior management or other stakeholders and provide support as necessary to enable the chief audit executive to perform the responsibilities outlined in the internal audit mandate. |    |   |
| 22 | Collaborate with senior management to provide the internal audit function with sufficient resources to fulfill the internal audit mandate and achieve the internal audit plan.   |    |   |
| 23 | Discuss with the chief audit executive, at least annually, the sufficiency, both in numbers and capabilities, of internal audit resources to fulfill the internal audit mandate and achieve the internal audit plan.                           |    | Finding #2 – Resourcing of Auditor General function |
| 24 | Consider the impact of insufficient resources on the internal audit mandate and plan.  |  | Finding #2 – Resourcing of Auditor General function |
| 25 | Engage with senior management and the chief audit executive on remedying the situation if the resources are determined to be insufficient.   |  |   |
| 26 | Discuss with the chief audit executive the quality assurance and improvement program, as outlined in Domain IV: Managing the Internal Audit Function.  |  |   |
| 27 | Approve the internal audit function's performance objectives at least annually. (See also Standard 12.2 Performance Management.)   |  |   |
| 28 | Assess the effectiveness and efficiency of the internal audit function. Such an assessment includes:   |  |   |
| 29 | – Reviewing the internal audit function's performance objectives, including its conformance with the   |  |   |

| #   | Essential Condition   | Assessment  | Finding Reference/Note                              |
|-----|---|---|---|
|     | Standards, laws and regulations; ability to meet the internal audit mandate; and progress towards completion of the internal audit plan.  |   |   |
| 29a | – Considering the results of the internal audit function’s quality assurance and improvement program.   |    |   |
| 29b | – Determining the extent to which the internal audit function’s performance objectives are being met.   |    |   |
| 29c | Discuss with the chief audit executive the plans to have an external quality assessment of the internal audit function conducted by an independent, qualified assessor or assessment team.                                      |    |   |
| 30  | Collaborate with senior management and the chief audit executive to determine the scope and frequency of the external quality assessment.   |   |   |
| 31  | Consider the responsibilities and regulatory requirements of the internal audit function and the chief audit executive, as described in the internal audit charter, when defining the scope of the external quality assessment. |  | Finding #4 – External Quality Assessment governance |
| 32  | Review and approve the chief audit executive’s plan for the performance of an external quality assessment. Such approval should cover, at a minimum:  |  | Finding #4 – External Quality Assessment governance |
| 33  | – The scope and frequency of assessments.   | NA  | Finding #4 – External Quality Assessment governance |
| 33a | – The competencies and independence of the external assessor or assessment team.  | NA  | Finding #4 – External Quality Assessment governance |

| #   | Essential Condition   | Assessment | Finding Reference/Note                              |
|-----|---|------------|---|
| 33b | – The rationale for choosing to conduct a self-assessment with independent validation instead of an external quality assessment.                      | NA         | Finding #4 – External Quality Assessment governance |
| 33c | Require receipt of the complete results of the external quality assessment or self-assessment with independent validation directly from the assessor. | NA         | Finding #4 – External Quality Assessment governance |
| 34  | Review and approve the chief audit executive’s action plans to address identified deficiencies and opportunities for improvement, if applicable.      | NA         | Finding #4 – External Quality Assessment governance |
| 35  | Approve a timeline for completion of the action plans and monitor the chief audit executive’s progress.   | NA         | Finding #4 – External Quality Assessment governance |

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# Essential Condition Non-Compliance Risks and Recommendations

## 1. Private sessions with the Auditor General

### Finding:

The IIA Essential Conditions require that Council meet periodically with the Auditor General without senior management present. The Municipal Act requires that all meetings of Council with quorum be open to the public unless the subject matter falls within the exceptions in s.239. As confirmed by the City Clerk, sessions with the Auditor General alone do not independently qualify as an exception unless the subject matter meets one of the legislative grounds (e.g. litigation, solicitor-client privilege, labour relations, identifiable individuals).

### Risk:

Without private sessions, Council's ability to receive candid, unfiltered perspectives on sensitive governance or risk matters may be constrained. This creates a compliance gap with IIA Standards 1111 and 2050.

### Options Considered:

- **Option 1 – Council Direction (Full Alignment Attempt):**

Council could seek to maximize alignment with the Essential Condition within the legislative framework by:

- Using existing closed-meeting exceptions under s.239 when an Auditor General briefing legitimately qualifies (e.g. fraud/waste investigations may fall under litigation, solicitor-client advice, or identifiable individual exceptions).
- Considering whether certain Auditor General briefings may be structured as education or training sessions under s.239(3.1), where no decision-making occurs.
- Documenting, in Council's procedures, that where no legislative exception applies, private AG briefings cannot be held — and that this represents a structural compliance limitation imposed by statute.

For this option to apply Council would need to direct the Clerk and Solicitor to develop a protocol for when and how AG briefings can properly be scheduled under s.239. Any residual compliance gap should be explicitly disclosed in the Auditor General's annual report to Council in line with IIA Standards.

- **Option 2 – Annual Disclosure (Structural Limitation):**

Alternatively, Council could acknowledge that this is a statutory limitation which cannot be fully resolved. In this approach, the Auditor General would disclose the limitation annually through the Auditor General's Work Plan and Quality Assurance and Improvement Program (QAIP) reporting, noting any efforts to maximize alignment using education/training provisions or

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existing s.239 grounds where appropriate. This ensures transparency and compliance with professional standards, while recognizing that the gap is imposed by statute.

**Recommendation:**

In consultation with Administration, Option 2 will be followed unless Council directs otherwise. The Auditor General will disclose this statutory limitation annually through the Work Plan, Quality Assurance and Improvement Program (QAIP) review, and Annual Performance Review. Council's receipt of these reports will fulfill the IIA requirement that the governing body be informed of and discuss any non-conformance.

This limitation arises solely from statutory provisions of the *Municipal Act, 2001* and therefore represents a **structural compliance exception** rather than a governance or operational deficiency.

**Comments from Administration:**

Administration has previously shared with the Auditor General the legislative requirements for proceeding in-camera. Matters meeting the criteria should be submitted in accordance with the timelines set by the City Clerk's office.

## 2. Resourcing of Auditor General's function

**Finding:**

The current Auditor General budget has remained at \$300,000 since 2013, despite inflationary increases, expanded scope, increasing hotline administration, higher volumes of investigations and expanded professional standards requirements. Comparative research shows that Windsor invests less than half the average percentage of its operating budget in the Auditor General function relative to peer municipalities, and the absolute funding is the second lowest among comparators. This funding level has reduced the capacity to conduct proactive, risk-based performance and compliance audits, limiting work plan flexibility. Retrospective cost build-up corroborates this analysis as well.

**Risk:**

Persistent under-resourcing risks the non-completion of planned audit work, reduced coverage of high-risk areas, an inability to meet demands for emerging issues, and diminished alignment with IIA Standard 2030. It may also impact the City's ability to demonstrate effective independent assurance to stakeholders.

**Recommendation:**

Council should determine the desired depth and breadth of mandate coverage for the Auditor General function. The budget has been flat-lined since 2013, resulting in an effective reduction in scope and effort as responsibilities expanded.

Council now faces a governance choice on two horizons:

### 1. Short-Term (2026 Workplan Approval)

- **Constrained Plan:** Approve the baseline 2026 Work Plan under the current \$300,000 envelope, with no projects, deferred follow-up, and investigations backlogged. This represents formal acceptance of mandate impairment and scope limitations.
- **Modified 2026 Scenario:** Approve a one-time \$75,000 increase for 2026. This restores follow-up validation for 2026, contingency capacity in year, and clears the investigation backlog, but still provides no project capacity.

### 2. Mid-Term (Future of the AG Role)

- **Retain and Restore:** Commit to a phased path toward benchmark resourcing (a significant cost increase). This will be presented in an upcoming report to Council.
- **Dissolve:** Determine to discontinue the Auditor General function and develop an alternative assurance model and an independent hotline arrangement.
- **Request Further Analysis:** If Council is not ready to decide now, direct Administration, in consultation with the Auditor General, to return with additional information to support a decision between restoration and dissolution before July 2026.

The **2026 Risk Assessment & Work Plan Proposal** (separate agenda item) illustrates the immediate implications of the short-term choice, while the **Future Direction for Auditor General as an Officer** (future agenda item) frames the structural decision Council must make by 2026.

#### **Comments from Administration:**

Administration has advised the Auditor General with a proposed process that will bring forward the Auditor General's work plan and budget request on an annual basis. Recommendations or directions from City Council will be incorporated into the annual operating budget development process in a manner that is similar to all other external budget requests, for example Agencies, Boards, and Committees (ABC).

### **3. Integrated GRC understanding**

#### **Finding:**

The IIA Essential Conditions require that Council receive an integrated view of governance, risk management, and control (GRC) effectiveness. At the City of Windsor, risk awareness and management do occur in practice:

- Risks are identified and discussed through Council and CAO reports, budget deliberations, and Corporate Leadership Team (CLT) discussions.
- Administration responds in real time to “hot topic” risks such as tariffs, procurement constraints, and budget pressures.
- Risk mitigation controls have been implemented in key areas, such as business continuity planning across multiple departments.

However, these processes remain largely ad hoc and undocumented. At present:

- There is no consolidated enterprise-wide risk register.
- Risk appetite is discussed at the CLT but is not documented or formally approved by Council.
- Risks are typically identified on a “top-of-mind” basis, rather than through a systematic methodology (COSO, ISO 31000, etc.).
- Risk ownership and monitoring are decentralized and not reported to Council in an integrated way.

Due to these limitations, the Auditor General cannot rely solely on ERM outputs as a comprehensive risk universe and must develop an independent risk assessment to ensure coverage of material risks.

**Risk:**

Without a consolidated enterprise risk register or a Council-approved risk appetite statement, Council’s visibility of the City’s risk profile is fragmented. This creates governance risks, including:

- Council’s inability to formally review, challenge, or approve the City’s risk appetite and tolerance.
- Reduced ability to see whether significant risks are being proactively managed or only addressed once escalated.
- A compliance gap with IIA Standard 2060, which requires the Chief Audit Executive to report on governance, risk management, and control effectiveness.
- The Auditor General’s work plan alignment with the City’s enterprise risk profile is necessarily partial, limiting Council’s assurance over the highest risks.

**Recommendation:**

Council should determine the desired depth of integration between ERM and the Auditor General’s risk assessment and direct Administration to formalize ERM processes accordingly. Specifically considering items such as:

- Update the City’s ERM policy and establish a consolidated, enterprise-wide risk register.
- Document and present risk appetite/tolerance for Council review, challenge, and approval.
- Require that ERM outputs be shared annually with both Council and the Auditor General to inform the risk-based audit plan.
- Direct the Auditor General to provide an annual Governance, Risk, and Control (GRC) briefing that synthesizes:
  - Administration’s ERM outputs,
  - Key audit themes and residual risks, and
  - Management’s responses to high-priority issues.

Until ERM reaches maturity, the Auditor General will continue to maintain an independent risk universe to ensure material risks not captured by ERM are addressed in the annual work plan.

**Comments from Administration:**

Administration acknowledges a review of the existing Enterprise Risk Management (ERM) policy is required and that process is currently underway. Furthermore, as part of the City's ongoing Business Continuity Plan (BCP) initiative, the Corporation has successfully completed nine (9) Business Impact Assessments across various departments in collaboration with our BCP partner, Deloitte, with one currently taking place. BCP is a strategic approach to ensuring the continuity of essential services during disruptive events, and Business Impact Assessments are a key tool in identifying critical functions, assessing the potential impact of service interruptions, and uncovering operational risks. These assessments also inform the development of targeted mitigation strategies to strengthen organizational resilience and safeguard public service delivery. Building on the success of this initial phase, a Request for Proposal (RFP) is planned to be issued to engage an additional consultant to support the second wave of BCP efforts, expanding the reach of Business Impact Assessments throughout the Corporation.

Furthermore, in referencing the Auditor General's 2023 Management Action Plan Validation report dated June 30, 2024 the City's assessed rating was "Well Controlled". The rating indicates that 100% of the audit recommendations due to be implemented in the current period were completed and as of the time of this report there were no outstanding audit recommendations. Administration remains committed to maintaining an ongoing and collaborative dialogue with the Auditor General to review annual conditions impacting municipal operations, as well as to assess and address the associated risks in a timely and informed manner. These efforts are considered complementary to the formal ERM policy framework, reinforcing the City's broader risk management objectives as the policy continues to evolve.

## 4. External Quality Assessment Governance

**Finding:**

While the Auditor General's office plans to conduct its first independent External Quality Assessment (EQA) in 2029, the scope, frequency, assessor qualifications, and reporting requirements are not yet embedded in the City's Auditor General by-law or other formal governance instruments.

**Risk:**

Without these governance elements embedded in formal policy, there is a risk that the EQA could be delayed, the scope could be narrowed, or assessor independence compromised. This creates a compliance gap with IIA Standards 1312 and 1320 and could undermine public confidence in the objectivity and quality of the Auditor General's function.

**Recommendation:**

The Auditor General will inform management of the suggestion to include the EQA requirement in the Auditor General by-law, specifying:

- Minimum five-year frequency
- Scope requirements aligned with IIA Standards
- Assessor qualifications and independence criteria
- Requirement for direct reporting of results to Council

If the EQA elements are not included as a requirement in the Auditor General by-law, the Auditor General will then instead consider alternate governance mechanisms, including:

1. Council Resolution/Directive establishing the requirement;
2. Amendment to the Auditor General Charter to incorporate the requirement;
3. Inclusion in the Auditor General's Contract/Engagement Terms; or
4. Multi-Year Work Plan Commitment approved by Council.

These alternatives aim to provide similar assurance of compliance with professional standards, though with varying levels of permanence and enforceability.

**Comments from Administration:**

Administration supports the inclusion of an External Quality Assessment as part of the Auditor General annual plan.