

## RE: Audit Plan Development

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To: Brad Neumann BNeumann@ontarioca.gov, [REDACTED]

Date: Tue, Dec 5, 2023, 3:44 PM

Brad and [REDACTED],

With our ongoing commitment to enhancing the efficiency of our audit processes and embracing agile methodologies, I would like to request the development of comprehensive audit plans for all upcoming audits, including formal and agile audits, prior to the commencement of any audit hours. The audit plans should encompass the following key components:

### Objectives and Goals:

- Identify the enterprise risk(s) addressed by the audit.
- Articulate how the audit can contribute to the organization's overarching goals and objectives.
- Clearly define reporting objectives.

### Methodologies:

- Specify the nature of all procedures involved in the audit plan.
- Describe the characteristics of engagement with the respective department.

### Timeframe:

- Clearly outline the anticipated timeframe for the completion of the audit plan.

### Significant Factors:

- Detail the scope of the project and outline specific requirements essential for a successful outcome.
- Identify any significant factors that may impact the audit.

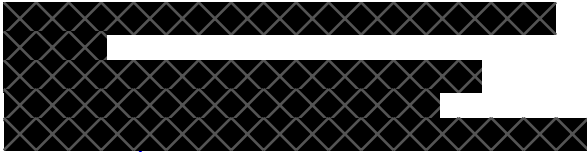
Your detailed development of these plans is crucial in providing a comprehensive framework for your audits, allowing for a precise allocation of audit hours and necessary resources. In the event of any adjustments to the plan, please submit addendums for my approval based on your recommendations.

Moving forward, we will take a collaborative approach to developing audit reports, emphasizing a "findings-forward" methodology. Recommendations should be presented only after thorough reporting on identified findings.

It is important that all audits adhere to the protocol of developing a plan beforehand, and no audit should commence until this requirement is fulfilled.

When you are ready, let's schedule a meeting to review and provide feedback on the audit plans. I will be layering in Ria with these conversations, given her expertise in auditing, and her return to Management Services full-time. I know that you have already commenced with previous audits, and it may be too late for construction or benefits, but I would like to see this for the payroll audit. Let's chat if you have any questions.

Thank you,



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**From:** Brad Neumann [BNeumann@ontarioca.gov](mailto:BNeumann@ontarioca.gov)

**Date:** Wed, Dec 6, 2023, 12:17 PM

Hi 

The Internal Audit Committee approved Audit Plan for FY 2023-24 is on SharePoint:  [Audit Plan Memo FY2023-24.pdf](#).

Our approved audit plan totals 3,930 hours, which includes 1,350 administrative hours and 2,580 audit hours. Collectively, Danny and I have roughly 3,100 hours in a fiscal year, so with a 830 hour deficit, we need to work to reduce the amount of time spent performing administrative functions.

While I understand the importance of communicating the value and impact of the Internal Audit function to City operations, some of components (“Methodologies” and “Significant Factors”) listed in your email below are typically only created after the conclusion of the audit and are part of the audit reporting process. Other components are included in the audit announcement memo, such as the audit objective.

Here are the audit announcements for the Construction and Benefit audits:

-  [Audit-Announcement\\_Benefits-2024-005.pdf](#)
-  [Email\\_3.20.2023\\_RE Audit Announcement - Construction Audit.pdf](#)

The reason why auditors only perform the administrative task of describing the methodologies and significant factors during the reporting process is not waste time describing things which may or may not involve meaningful findings. If our methodology results in a significant finding, we will more thoroughly document and communicate the steps performed while writing the audit report. However, if a methodology results in no significant findings, the extra administrative work to write communicate that methodology is typically not value-adding because our workpapers contain our test procedures and the detailed test procedures generally do not need to be communicated to every audit client.

As Internal Audit is an independent function, I am also concerned relinquishing oversight and approval of the audit plan to

anyone besides the Internal Audit Committee. Internal Audit needs to be able to perform the reviews and test procedures that we feel are appropriate for an audit, without pre-authorization or approval from Management. The “International Standards for the Professional Practice of Internal Auditing” (Standards) by the Institute of Internal Auditors (IIA) state:

**1100 – Independence and Objectivity**

The internal audit activity must be independent, and internal auditors must be objective in performing their work.

*Interpretation:*

*Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board.*

*This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organizational levels.*

*Objectivity is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional, and organizational levels.*

Let’s continue this discussion during our regular 1:1 meetings and work together to figure out an efficient way to both keep you informed of our audit work and maintain the organizational independence of the Internal Audit function, as required by the Standards.

**Brad Neumann**

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To: Brad Neumann [BNeumann@ontarioca.gov](mailto:BNeumann@ontarioca.gov)

Date: Wed, Dec 6, 2023, 1:51PM

Hi Brad,

Are you assuming you are in the role of the Chief Innovation Officer/Chief Audit Executive role as outlined in the Memo issued by Mr. Ochoa on May 13<sup>th</sup>, 2020?



From: Brad Neumann [BNeumann@ontarioca.gov](mailto:BNeumann@ontarioca.gov)

Date: Wed, Dec 6, 2023, 4:27 PM

Hi [REDACTED],

As a Certified Internal Auditor (CIA) and as the City Auditor, I am informing you that your proposed plan to require management review and authorization of audit functions endangers our ability to state that our audit function “conforms with the International Standards for the Professional Practice of Internal Auditing” (IIA Standard 1321).

Please be aware that I am not stating that anything improper occurred. According to the IIA:

“Conflicts of interest may be identified even if no unethical or improper act actually results because the conflicts themselves may create the appearance of impropriety and undermine confidence and trust in individual internal auditors, the internal audit activity, and the profession, according to Standard 1120.”

My concern is that an internal audit function is only valid so long as it remains independent of direct management oversight and involvement in audit decisions. Functionally and operationally, the internal audit function must report to the Audit Committee, while administratively reporting to a “level within the organization that allows the internal audit activity to fulfill its responsibilities” (Standard 1110). The IIA’s interpretation of Standard 1110 puts it clearly: “Organizational independence is effectively achieved when the chief audit executive reports functionally to the board.”

Please understand that I value your experience, expertise, and insights into the areas we are auditing. Your advice is helpful and appreciated, and I recognize that you are well connected to the City’s leadership and are a valuable resource to help us understand the issues and concerns of leadership. I strongly support the concept of the Innovation, Performance and Audit department and the synergies our department provides to the City. To support the City’s efforts to have a valid internal audit function, it is my role to inform you of my concern regarding the independence of the internal audit function.

Regarding the memo, I believe we will need to update the memo to reflect the City’s current organizational structure. The IIA will release their updated standards in the spring of 2024, so it would make sense to revisit the memo once the updated standards are released.

I look forward to our partnership’s continued success in improving the City and its operations.

**Brad Neumann**

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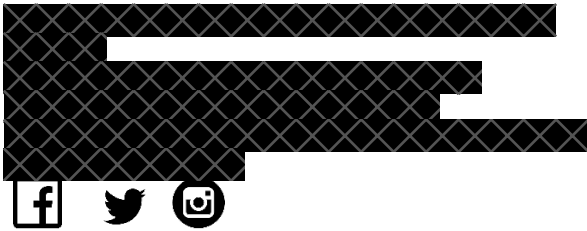


To: Brad Neumann BNeumann@ontarioca.gov

Date: Thu, Dec 7, 2023, 1:52 PM

Hi Brad,

In the memo drafted by Mr. Ochoa titled Establishment of the Internal Audie Committee (IAC) dated May 13, 2020, it clearly lists Chief Innovation/Chief Audit Executive as having the dual reporting relationship between senior management and the governing body independent of Management. As the Management Services Director, I am in that role. The Standard identified below is in relation to my position solely and not that of the City Auditor. All audit functions and responsibilities are led by my office. Furthermore, the job description/flyer that you applied under states "Under the direction of the Management Services Director, the City Auditor conducts audits and investigates all internal processes and procedures to eliminate waste, fraud, and abuse."



From: Brad Neumann BNeumann@ontarioca.gov

To: [Redacted]

Date: Thu, Dec 7, 2023, 4:45 PM

Hi [Redacted]

As City Auditor and the only Certified Internal Auditor (CIA) at the City, it is my obligation to ensure the City's internal audit function remains in compliance with the International Standards for the Professional Practice of Internal Auditing (commonly referred to as the "Standards"). During my interview with the City Manager for the position of City Auditor, the City Manager stated his desire for the internal audit function to operate and remain in compliance with the Standards.

In the May 13, 2020, memo you referenced, the full line you cited reads: "**To maintain the independence and objectivity needed for IA to perform its responsibilities in accordance with auditing standards**, the chief audit executive or Chief Innovation Officer (CIO), should have a dual-reporting relationship to senior management and a governing body independent of management."

The independence and objectivity of the internal audit function are addressed in standard 1100 "Independence and Objectivity," standard 1110 "Organizational Independence," and standard 1120 "Individual Objectivity." Additionally,

standard 1300 “Quality Assurance and Improvement Program” requires the routine evaluation of the internal audit activity’s conformance with the Standards. Standard 1321 “Use of ‘Conforms with the International Standards for the Professional Practice of Internal Auditing’” states that the internal audit activity can only use at designation if the internal audit activity conforms with the Standards based on the results of the quality assurance and improvement program.

I believe that an unbiased, objective review of the City’s internal audit function, as created in the May 13, 2020, memo, would identify conflict of interests if the City’s internal audit activity is required to submit its audit procedures for review and approval by an employee with duties consistent with the classification of Management Services Director, who is employee “at will” of management, who has no background in internal audit and who has personal and professional incentives to act in accordance with the will of management.

The conflict of interest stated above is not abated by the City Auditor’s job description or by the memo. I am not aware of any instances where the previous Chief Innovation Officer required review and approval of the City Auditor’s audit procedures prior to performance of the internal audit function. I am concerned that this new requirement will undermine and cause irreparable harm to the independence and integrity of the internal audit function. Several City employees have asked me how internal audit remains independent of management. If the internal audit function was required to submit their IAC-approved audits for additional management review in order to execute the audit engagements, I do not believe the internal audit function would be independent of management, and we would be out of compliance with the Standards.

I believe there is room for partnership and collaboration, and that we can work together to make substantial improvements to the internal audit function. It is because I want the City and IPA to succeed that I have to inform you of my concerns.

I look forward to our continued productive discussions.

## Brad Neumann

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**From:** [REDACTED]  
**To:** Brad Neumann [BNeumann@ontarioca.gov](mailto:BNeumann@ontarioca.gov)  
**Date:** Fri, Dec 8, 2023, 11:45 AM

Hi Brad,

Your opinion/interpretation of the Standard or memo does not preclude you from my directive that future audits require an Audit Plan (described in my initial email below). The Audit Plans are to be submitted to my office for oversight to ensure they align with the Internal Audit Committee goals. As the Chief Audit Executive, I must be aware of the goals, objectives, methodologies, timeframe, and significant factors prior to the start of the Audit. Not following my directive is considered

insubordination and could result in serious discipline.



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7 Emails