

Criteria for Audit Report Rating

The audit report rating is intended to provide management with an indication of the overall status of internal controls and processes in the audited area. The audit report rating is based on Internal Audit's overall assessment of the significance of issues identified during the audit process, and in conjunction with professional judgement also considers the following:

1. Design and effectiveness of internal controls, processes, procedures, policies, and systems.
2. Compliance with policies, standard operating procedures, and other requirements (i.e. legal, regulatory, accounting, contractual).
3. Quality of the data and information provided by management and related systems.
4. Efficiency of systems, processes and procedures.

Effective	<ul style="list-style-type: none"> - Key controls are adequately and appropriately designed, and are operating effectively to support objectives and manage risks. - Audit recommendations resulted in only minor enhancements to the effectiveness or efficiency of controls and processes. - One or more Priority 3 findings. - Insignificant cumulative financial impact when all audit findings have been considered. - Audit findings would not be subject to a follow-up by Internal Audit.
Enhancement Required	<ul style="list-style-type: none"> - A few key control weaknesses were noted that require enhancements to better support objectives and manage risks. - One Priority 2 finding and Priority 3 findings. - Priority 3 findings only where the cumulative financial impact is significant. - Corrective action and oversight by management is needed. - Audit findings could be subject to a follow-up by Internal Audit.
Significant Improvement Required	<ul style="list-style-type: none"> - Numerous key control weaknesses were noted that require significant improvement to support objectives and manage risks. - One Priority 1 finding, or more than one Priority 2 findings and Priority 3 findings. - Priority 2 and 3 findings only where the cumulative financial impact is significant. - Corrective action and oversight by senior management is required. - Audit findings will be subject to a follow-up by Internal Audit.
Immediate Action Required	<ul style="list-style-type: none"> - Key controls are either not adequately or appropriately designed and are not operating effectively, or there is an absence of appropriate key controls to support objectives and manage risks. - More than one Priority 1 finding, combined with Priority 2 or 3 findings. - Regardless of the type of findings, the cumulative financial impact is material to the City's financial statements. - Confirmed fraud by management or staff. - Corrective action and oversight by Corporate Leadership Team is required immediately. - Follow-up of such audit findings by Internal Audit would be of high priority.

Priority 1 (P1)

One or more of the following conditions exist that require **immediate attention of the Corporate Leadership Team**. Corrective actions by senior management must be implemented.

- Financial impact of both actual and potential losses is material.
- Management's actions, or lack thereof, have resulted in the compromise of a key process or control, which requires immediate significant efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks. Failure by management to remedy such deficiencies on a timely basis will result in the City being exposed to immediate risks and/or financial loss.
- One or more of the following conditions is true: i) management failed to identify key risks; ii) management failed to implement processes and controls to mitigate key risks.
- Management's actions, or lack thereof, have resulted in a key initiative to be significantly impacted or delayed, and the financial support for such initiative will likely be compromised.
- Management failed to implement effective control environment or provide adequate oversight, resulting in a negative pervasive impact on the City or potential fraudulent acts by City staff.
- Fraud by management or staff, as defined by the Corporate Fraud Prevention Policy (policy 2.14).

Priority 2 (P2)

One or more of the following conditions exist that require attention by senior management. Corrective actions by management should be implemented.

- Financial impact of both actual and potential losses is significant.
- Management's actions, or lack thereof, may result in a key process or control to be compromised, which requires considerable efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks.
- Management correctly identified key risks and have implemented processes and controls to mitigate such risks, however, one or more of the following is true: i) the processes and controls are not appropriate or adequate in design; ii) the processes and controls are not operating effectively on a consistent basis.
- Management's actions, or lack thereof, have impacted or delayed a key initiative, and the funding for such initiative may be compromised.
- Management failed to provide effective control environment or oversight on a consistent basis, resulting in a negative impact on the respective division, or other departments.
- Management failed to comply with Council-approved policies, by-laws, regulatory requirements, etc., which may result in penalties.
- Management failed to identify or remedy key control deficiencies that may impact the effectiveness of anti-fraud programs.

Priority 3 (P3)

One or more of the following conditions exist that require attention by management. Corrective actions by management should be implemented.

- Financial impact of both actual and potential losses is insignificant.
- A non-key process or control if compromised may require some efforts and/or resources (including time, financial commitments, etc.) to mitigate associated risks.
- Processes and controls to mitigate risks are in place; however, opportunities exist to further enhance the effectiveness or efficiency of such processes and controls. Management oversight exists to ensure key processes and controls are operating effectively.
- Minimal risk of non-compliance to Council-approved policies, by-laws, regulatory requirements, etc.
- Low impact to the City's strategic or key initiative.
- Low impact to the City's operations.